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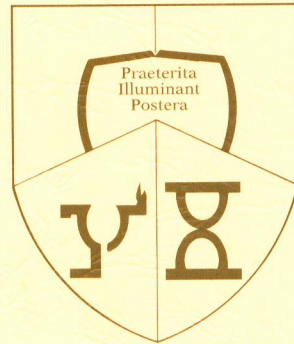
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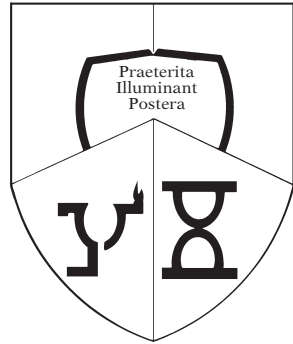


The *Accounting Historians Journal*

December 2002
Volume 29, Number 2

Research on the Evolution of Accounting
Thought and Accounting Practice

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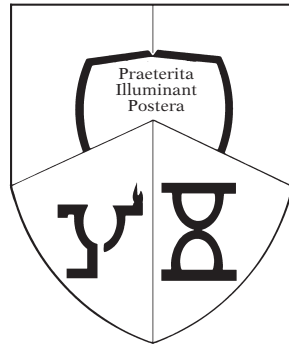
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Pak K. Auyeung
GRIFFITH UNIVERSITY

A COMPARATIVE STUDY OF ACCOUNTING ADAPTATION: CHINA AND JAPAN DURING THE NINETEENTH CENTURY

Abstract: This study attempts to examine why western accounting was adopted in one Asian country, Japan, and not in another, China, when modern accounting methods were brought to the East during the mid-19th century. The explanation offered is socio-cultural. China was characterized by centralized political power, a society resistant to change, an anti-merchant policy and narrow-based learning. In contrast, Japan had dispersed structures of political power, a society receptive to change, a pro-merchant policy and broad-based learning. In China, the emphasis was to preserve harmony and integration in accord with mainstream Chinese ideology which had created a highly stable and tradition-oriented society. Chinese enterprises that operated within this institutional framework were unlikely to adopt western-style double-entry bookkeeping. In Japan there was no specifically institutionalized anti-capitalist doctrine to prevent the rise of industrialism and the adoption of modern accounting.

INTRODUCTION

Accounting development is highly dependent on environmental circumstances and conditions. The main purpose of this paper is to examine why two countries reacted differently to common external influences. A comparative study is presented of the effects of political and socio-cultural structures on accounting development in China and Japan. The specific question addressed in this paper is why was western accounting adopted in Japan but not in China during the mid-19th century – a time when modern accounting methods were brought to the East?

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According to Baladouni “the origin, content, or mode of being of accounting was found to be based on cultural and social forces” [Baladouni, 1979, pp. 326-327]. Culture is a complex phenomenon and can be viewed from different perspectives. One view is: “The genuine culture . . . is the expression of a richly varied and yet somehow unified and consistent attitude towards life” [Sapir, 1960, p. 90]. Parsons constantly identified culture with values. He defined the cultural system as a “normative pattern-structure of values” [Parsons, 1951, p. 37], “culture provides the standards (value orientations) that are applied in evaluative processes” [ibid., 1953, p. 16]. The term ‘cultural framework’, when applied to accounting, designates the particular set of institutions in a society which, while remaining an integral part of the larger culture, represents those aspects of general social life which are most influential in shaping the course of accounting activity [Baladouni, 1979].

Changes in the cultural framework imply alterations to a particular institution or set of institutions which have consequences for the general orientation of accounting. Hatfield [1950] attempted to explain accounting development by analyzing accounting issues in terms of their cultural and social content. Other work following this approach include Scott’s [1931] *The Cultural Significance of Accounts*, Deinzer’s [1965] *Development of Accounting Thought*, and Chatfield’s [1973] *A History of Accounting Thought*. This research tradition has also been applied by researchers of Asian accounting history. For example, Fujita [1991] used a sociological framework to show how Japanese accounting principles developed in their unique social environment. Someya [1996] demonstrated that accounting is a function of the environment in which it operates, while Auyeung [2000] highlighted the importance of socio-cultural influence on accounting developments of China during the 19th and early 20th centuries.

The differential responses of China and Japan to the influence of ‘western’ accounting provides an important historical illustration of the fact that the mere existence of ‘advanced’ accounting knowledge is not a sufficient condition for its implementation, particularly if the social environment required for the widespread application of this knowledge is lacking. There existed considerable social and cultural interaction between China and Japan from the 7th century and many Chinese cultural features were transferred and instituted in Japan by the imperial government [Fairbank et al., 1973; Nakamura, 1997]. In spite of this cultural link, the two countries embarked on very

different paths during the mid-19th century when the West [in the form of the British, French, and Dutch] extended its political, economic, and social influence to the Far East. Japan experienced accounting modernization, while China encountered accounting stagnation [Someya, 1989; Gardella, 1995; Auyeung, 2000]. The primary reason for the different responses to western infiltration in the two countries lay in their separate complex political and sociological frameworks. Behind an outward similarity, Chinese and Japanese societies differed significantly. This study seeks to identify and discuss the structures of these two societies that encouraged one to pursue a path of capitalistic development and receptivity to 'modern' accounting while the other was resistant.

Previous Literature: There have been several previous historical studies of Chinese accounting systems. These have primarily adopted a technical perspective. Of particular significance was Fu's [1968] dissertation which investigated the Western Zhou Dynasty's (1122-771 B.C.) accounting system. Guo's [1982, 1986, 1988] books have also extended our knowledge of Chinese accounting from the earliest times to the 20th century. Hsu's dissertation [1988a] described the accounting systems of Chinese merchants in Nagasaki, while Zhao's book [1992] and Lu's thesis [1999] represent a continuation of Guo's research. Auyeung's thesis [2000] examined the influence of environmental changes on accounting development in China. Book-length studies of Japanese accounting history have been written by Ogura [1962], Aoki [1976], Kawahara [1977], Hisano [1987], Fujita [1991], Chiba [1992] and Someya [1996]. Articles describing Chinese and Japanese accounting systems include contributions by Otte [1928], Huang [1934], Ding [1935], Shimme [1937], Nishikawa [1956], Ogura [1960], Fujita [1966], Fu [1969, 1971], Ba [1976], Cheng [1980], Taketera [1980], Gardella [1982, 1992, 1995], Taketera and Nisikawa [1984], Zhao [1987], Chiba [1987], Hsu [1988b, 1991], Someya [1989], Fu [1989], Cooke [1991], Lin [1992], Chen [1993], Zhong [1993], Aiken and Lu [1993a, 1993b, 1993c, 1998], McKinnon [1994], Sasaki [1995], Chen [1998], Ryoji [2000], Camfferman and Cooke [2001] and Yamaguchi [2001].

In spite of these voluminous publications, most work to date has described the development of accounting practices. Despite the efforts of a few researchers little is known about the relationship between socio-cultural change and the development of accounting in China and Japan. There are no previous studies

which compare accounting developments in the two countries during the 19th century. China and Japan are juxtaposed in this comparative study, the main objective of which is to examine the history of accounting in the context of the unique political and socio-cultural traditions of China and Japan. In this way we may shed light on the intriguing question, why did Japan embark on accounting modernization, while China did not? By addressing this question the paper seeks to contribute to the growing literature on comparative international accounting history.

WESTERN ACCOUNTING PRACTICES

While the East was in the pre-modern stage of economic development during the 18th century, several western countries were entering the early phases of industrialization. This proved a significant stimulus to accounting development. As Littleton asserted, commerce and industry "led men to expand double-entry bookkeeping into accounting" [1966, p. 368]. The main features of 19th-century financial accounting in the West were a distinction between capital and revenue expenditure, the valuation of fixed assets, the adoption of depreciation accounting, the application of the accruals, going concern, consistency, prudence and matching concepts, the use of more sophisticated methods of profit measurement and financial procedures, and the recognition of internal control. These features comprise 'modern western accounting' for the purposes of this paper. Apart from the common use of Hindu-Indian numerals these features were absent in indigenous Chinese and Japanese bookkeeping systems.

With the increasing importance of joint stock companies in the capitalist economy the development of accounting practices in the industrial West was significantly influenced by the need to report to shareholders. In company accounting, profit measurement was important in two respects. First, profit data was significant because it was prudent not to distribute dividends to shareholders in excess of profits. Second, the periodic profit figure came to be regarded by shareholders as a summary of the results of management performance. In the more complex economy of the 19th century, financial information was also required by potential investors and creditors. Profit measurement assumed considerable importance and its computation was advanced by the development of accounting for prepayments and accruals [Edey and Panitpakdi, 1956; Chatfield, 1973; Yamey, 1977].

With the advent of industrial capitalism, investment in fixed assets assumed greater significance. The direct effects of this in western accounting included the increasing importance of distinguishing between capital and revenue expenditures, and writing down systematically the cost of fixed assets. Littleton [1966] pointed out that although depreciation was not a clear concept in writings of the 18th century, it was increasingly applied in practice. For example, an annual depreciation of five per cent on buildings and eight per cent on steam engines were found in the accounts of Boulton and Watt in the late 18th century [also Roll, 1930]. During the 19th century, depreciation was more generally applied and considerable discussion centered around the allocation of expenditures between capital and revenue accounts, and the appropriate methods for calculating depreciation [Saliero, 1915].

Western accounting systems tended to make use of specialized subsidiary books for the purpose of keeping details out of the general journal and the general ledger. The use of subsidiary books was accompanied by periodic postings of totals to control accounts in the general ledger [Yamey, 1977]. The use of subsidiary ledgers and control accounts not only relieved the general ledger of a mass of detail, but also contributed to internal control through the division of labor and periodic reconciliation of the subsidiary ledger with the related control account. By facilitating the division of bookkeeping duties, western bookkeeping reduced the risk of error and made it more difficult to falsify the books and conceal fraud.¹

ACCOUNTING STAGNATION IN CHINA

The development of advanced western accounting methods, especially during the 19th century, had a profound effect in Japan, but no impact in China. This and the following section examine the state of accounting in the two countries previous to offering an explanation of their different reactions to modern western accounting.

Indigenous Accounting Systems: The Chinese accounting system was fairly well established in the government sector as early as the Western Zhou Dynasty (1122-771 B.C.). During this period

¹ As well as more sophisticated financial accounting, there was also progress in the development of cost accounting during industrialization [Solomons, 1952]. This is beyond the scope of the current study.

there was sophisticated budgetary control and single-entry bookkeeping systems. The so-called *sanzhufa* ('three-pillar balancing method'), was introduced to enable the imperial court to keep track of government assets. The reporting format focused on the balance of surplus or net assets at the end of the accounting period, as shown in the equation: revenues *minus* disbursements *equals* surplus. The name, 'three-pillar balancing method', captured the relationship between the three variables used in this method.

As a result of economic growth, the private sector subsequently took the lead in accounting development, and businessmen were largely responsible for introducing the improved *shizhufa* ('four-pillar balancing method') during the Tang Dynasty (A.D. 618-907). This method took into account the balance brought forward from the previous period and the reporting format focused on the relationship of the four variables shown in the equation: opening balance *plus* revenues *minus* disbursements *equals* closing balance. An important accounting innovation emerged during the mid-15th century when the *sanjiao zhang* ('three-leg bookkeeping method') was created. This contained features of both single-entry and double-entry record keeping. The recording method earned the name 'three legs' because double-entry was used for recording credit transactions and single-entry for recording cash transactions [Guo, 1988; Lu, 1999; Auyeung, 2000].

In the late Ming Dynasty (1368-1644) and the early Qing Dynasty (1644-1911) a more sophisticated accounting technique, the *longmen zhang* ('dragon-gate bookkeeping method') was created. This was a primitive double-entry system with two main advantages. It facilitated the accuracy of the account books by periodically balancing the books and extracting a trial balance, and it also permitted profit determination. The characteristic feature of dragon-gate bookkeeping can be seen in the equation: revenues *minus* disbursements *equals* assets *minus* owners' equity and liabilities. Both sides of the equation by implication measured profit on a cash basis.

The next milestone in Chinese accounting was the development of the *shijiao zhang* ('four-leg bookkeeping method') in the 18th century. The new method was also known as the *tiandi panzhang* ('heaven-and-earth bookkeeping method') in Taiwan (Hsu, 1988a). This was an improvement on previous methods because broader account classification and greater use of subsidiary records accommodated more complex and a larger volume of transactions. Under the four-leg bookkeeping method all

transactions, both cash and non-cash, were recorded in the journals and posted to the ledgers using double-entry procedures. The term 'four-leg' was used to distinguish this extension of the double-entry technique from the preceding 'three-leg' method [Guo, 1988; Lu, 1999; Auyeung, 2000].

The introduction of double-entry methods represented significant accounting innovations in China. However, despite their usefulness, these techniques were not commonly employed even by substantial businesses. In the private sector, the majority of commercial firms and banks employed the four-pillar balancing method, irrespective of the size of the organization. Its users included Shanxi merchants, the *gonghang* (13 Chinese firms in Guangzhou), Xijiang silk merchants, and wholesalers and retailers in Shanghai. Major firms that adopted the four-pillar balancing method included the Deqing Commercial Bank, the Hangfeng Fabrics Company, the Tongyidian, the Sanshanhang Wukee, and the Manlonghao. Further, only a minority of small and medium-sized firms used the three-leg bookkeeping method, and a limited number of large-scale businesses used the double-entry dragon-gate bookkeeping and four-leg bookkeeping methods. Overall, the indigenous accounting systems were, by and large, perceived as adequate for a commercially active pre-modern society [Huang, 1934; Guo, 1988; Lu, 1999; Auyeung, 2000].

Emergence of Corporations: After the First Opium War in 1840, foreign merchants came to China and established businesses in the treaty ports. They contributed to China's early industrialization by providing new technology and overseas market connections. They also brought managerial and accounting skills. Many foreign merchants traded with the Chinese through compradores, who acted either as salaried employees or independent agents. Through their contacts compradores were exposed to modern western entrepreneurial and accounting skills.

China's relation with the West was marked by contradictions. It benefited from the foreign incursion, but suffered from the consequences of 'imperialist exploitation'. In order to resist foreign invasion China after 1840 strengthened its military capabilities through the construction of armament and military-support industries. Thus, much of the early investment in modern machinery was closely linked to China's military needs. Feuerwerker [1958] estimated that about a dozen *kuantu shangpan* (government supervised and merchant managed) joint-stock enterprises were established and six of which formed

the basis of China's eventual industrialization. The first Chinese steamship company, the China Merchants' Steam Navigation Company (CMSN), was established in 1873, followed by the first modern mine, the Kaiping Coal Mines, in 1877; the first telegraph company, the Imperial Telegraph Administration, in 1880; and an ambitious iron and steel enterprise, the Hanyeping Coal and Iron Company, in 1889.

China's industrialization during the mid-19th century was accompanied by the import of western science and technology in order to develop military capability. This impacted on the business environment in two ways: the emergence of joint-stock companies and the use of high-cost fixed capital in production. For example, following the offer of its shares to the public, the paid-up capital of CMSN increased from 476,000 taels (Chinese currency) in 1874 to two million taels in 1884. Other officially initiated joint-stock companies followed suit such as the Shanghai Cotton Cloth Mill [Feuerwerker, 1958; Lai, 1994]. Other instances of industrial development included the Hanyeping Coal and Iron Company which manufactured iron and steel using modern equipment purchased from Europe in 1894, that is, two years before the Japanese government built an iron and steel works at Yawata [Thomas, 1984]. The Kaiping Coal Mines also purchased capital equipment from abroad. Its total capital expenditure reached 2 million taels in 1882 and 2.3 million taels in 1891 [Sun, 1957].

Deficiencies of Traditional Accounting Systems: These major changes posed a challenge to indigenous accounting techniques in China. They implied an extension from bookkeeping to financial reporting. With the separation of ownership and control in joint-stock companies management was obliged to prepare and present to owners periodic reports, including a profit and loss statement. The accurate computation of periodic profit was also required to determine dividends. Further, the increased capital investment required that attention be paid to fixed-asset and depreciation accounting, and the growth of large-scale companies required accounting techniques to enhance internal control.

The indigenous bookkeeping systems appeared to be deficient for accounting in joint-stock companies and other large-scale enterprises using capital equipment. Auyeung [2000] identifies a number of reasons for this. First, there was a tradition of confidence in the honesty of managers. Chinese businessmen did not keep formal source documents of transactions. However, as the scale of business operations expanded,

the traditional concept of management based on personal trust *per se* could not be relied upon. Second, the Chinese recording procedures were unsystematic and disorderly. The Chinese numerals used to record transactions in books of account were not aligned by rank value and arithmetical calculations could not be performed on the pages of a journal or ledger. The pages of these books were not numbered sequentially and there was no cross-referencing system. The efficiency of the abacus also came into question when large enterprises had to record voluminous transactions, involving large sums of money. In view of their weaknesses, the indigenous bookkeeping systems were of limited use as a basis for internal control.

Third, profit measurement was not of crucial concern in the pre-1840 era when businesses were small and comprised proprietorships, partnerships, and lineages, and the business was run by an owner-manager familiar with day-to-day operations. The traditional systems were based on cash accounting, not on accruals and depreciation. There was no distinction between capital and revenue expenditure. The cost of capital equipment was treated as an expense and no separate accounts were kept for fixed assets in the ledger. A few companies such as the Da Longjing (Big Dragon Well) salt mine, calculated an amount for unexpired expenditures on an arbitrary basis and included the amount as revenue. As a result, realized as well as unrealized amounts, and capital as well as revenue expenditures could be included in the calculation of profit or loss. Charges for depreciation were exceptional despite the increasing employment of capital in sectors such as mining and transportation

Retention of Traditional Accounting Systems: Given the deficiencies of the indigenous accounting systems, the appropriateness of the modern western system for joint stock industrial enterprises, and the commercial and financial interaction between China and the West, one might have expected the adoption of western accounting technologies in China. However, this was not the case. Materials kept in the Beijing City Archives suggest that a majority of commercial and industrial firms in the second half of the 19th century continued to adopt the single-entry four-pillar balancing method. A small minority used the partial double-entry three-leg bookkeeping method, and a few large enterprises used the dragon-gate or the double-entry four-leg bookkeeping method. Many of these methods remained in use during the early 20th century, even in large-scale enterprises which had acquired machinery from the industrial West.

Examples included the CMSN, the Kaiping Coal Mines, the Hanyeping Coal and Iron Company, and the Shanghai Cotton Cloth Mill [Ding, 1935; Ge, 1986; Guo, 1988; Lai, 1994; Gardella, 1995; Auyeung, 2000].

The prevalence of traditional accounting systems was found to be incompatible with the existence of joint-stock companies in China. For example, the Kaiping Coal Mines failed to comply with the requirement in its prospectus to issue yearly accounts to shareholders and did not pay any dividends during its first ten years. The British consul attributed this to "the fault in bookkeeping" (*British Consular Reports from Tientsin, 1876-1912*, 1885, p. 3). In the late 1880s, Kaiping was in financial difficulties and this gave the British an opportunity to assume control of the enterprise and place the accounting function in foreign hands [Sun, 1957; Carlson, 1971]. Similar difficulties were experienced by the CMSN. To overcome the problems arising from the limitations of its accounting system, the CMSN paid a fixed annual dividend of ten per cent to its ordinary shareholders irrespective of performance and was exempted from issuing formal financial reports [Lai, 1994]. Inevitably, CMSN's accounting system came under heavy criticism as it became clear that external providers of funds were not receiving sufficient financial information. In 1885, the Board of Revenue demanded an imperial decree to order an investigation into the accounting books of the company [Feuerwerker, 1958]. Moreover, defalcation often occurred in large-scale enterprises because of the complete lack of internal control.² Not surprisingly, from 1884, the opportunity to gain mercantile support for private investment in *kuantu shangpan* joint-stock enterprises vanished [Chan, 1996].

ACCOUNTING MODERNIZATION IN JAPAN

Indigenous Accounting Systems: Before the introduction of western accounting techniques Japan had its own long-established bookkeeping methods. As explained later, there was no source of centralized political or economic power in pre-modern Japan. Rather, power was fragmented and concentrated locally. Reflecting this configuration, there were no nation-wide uniform accounting systems during the Edo Era (1603-1867). Instead, separate bookkeeping methods were developed and kept secret

² For example, Tang Jingxing and Xu Run, Directors of the CMSN, misappropriated company funds and were forced to resign.

by independent economic powers, such as the Tomiyama, the Tanabes, the Nakais, the Hyogos, the Kondohs, the Honmas, the Hasegawas, the Ishimotos, the Onos, the Kohnoikes, and the Mitsuis.

In spite of this secrecy, some bookkeeping manuals were prepared and preserved by mercantile families. These have been analyzed by accounting historians, such as Ogura [1960, 1962] and Kawahara [1977]. According to Kawahara [1977], the Tomiyama bookkeeping system of 1615-1640 encompassed dual calculations. First, proprietors' equities at the end of the year equaled the difference between assets and liabilities at the end of the year. Second, proprietors' equities at the end of the year equaled proprietors' equities at the beginning of the year plus revenues and minus expenses for the year. The Tanabes produced three financial reports during the early 19th century, namely, a report of assets and liabilities, a report on net income comparing the opening and closing balances of net assets, and a summary of revenues and expenditures. The Tanabe family owned many iron forges in the Izumo province and some used more than 30 books as a basis for preparing a periodic statement of inventory [Nishikawa, 1956; Someya, 1989].

During the late 18th and early 19th centuries the accounting records of the Nakais, the so-called "Ledger of good Fortune", showed a duality of entry with each transaction recorded in two books, thus showing features of double-entry bookkeeping. The Nakais also defined *tokuyo* (profit) as residual profit, that is the net operating profit in excess of a certain rate of return on capital. Taketera and Nisikawa's [1984] examination of the books of the House of Mitsui during the Tokugawa Era (1603-1867) shows the dual method of profit calculation: the first based on revenues minus expenses and the second on assets minus opening net worth and liabilities. Ogura's [1960, 1962] studies show that there were some common features of the indigenous methods even though they were developed independently.

Although the double-entry concept was applied, most Japanese merchants practiced single-entry bookkeeping, called the *dai Fukucho*. Four account books — the sales day book (*uricho*), the purchases day book (*kaicho*), the cash book (*kingindeiricho*), and the ledger (*dai Fukucho*) — were commonly used. There was no systematic classification of accounts, nor any distinction between capital and revenue expenditures, and the cash basis of accounting was adopted. As in China, the indigenous accounting systems were adequate in a feudal economy where production

and distribution were on a small scale [Nishikawa, 1956; Someya, 1989].

Once its ports were opened to the United States in 1854, Japan responded to the Occident challenge with much greater speed than China. The Meiji Government (1868-1912) established a radically altered set of political and economic institutions based on western models in an attempt to modernize the country. Many Japanese students went overseas to learn western science, technology, economics, and entrepreneurial skills. Foreign consultants visited Japan in increasing numbers to give advice on national development. Energetic efforts were made by the government not only to modernize strategic sectors, such as transport, communications, iron, steel, the army and navy, but also to establish non-strategic consumer industries. The first steamship, Chiyodagata, was built in 1866 and the first railway was constructed in 1872. Arsenals, shipyards, machine shops, and schools of science and technology were established using foreign capital equipment. Factories were built and equipped with imported machinery to produce silk, cement, glass, sugar, chemicals, and a variety of consumer goods, and most of these ventures were eventually sold to businessmen at reduced prices [Smith, 1955]. The Japanese private sector eagerly responded to these government-supported efforts and attempted to branch out into new fields. In particular, the first mechanical silk-reeling plant was built by private entrepreneurs in 1870. In the mid-1880s, the cotton industry was developed almost wholly by private capital [Crawcour, 1989].

Accounting Modernization: During the Meiji 'great leap forward' of the mid-19th century, indigenous bookkeeping methods were found to be inadequate for industrial enterprises using advanced western machinery and production methods. Unlike China, Japan responded quickly to the changing environment. Accounting modernization took place and western-style double-entry bookkeeping was introduced as the foundation on which a capitalist economy could develop. Changes in the latter part of the 19th century are described by Someya [1989] and Ryoji [2000] as an accounting "revolution". French, British, and Dutch accounting systems were significant influences in this revolution. The Yokosuka Steel Plant, for example, recruited a French naval accountant as its chief accountant. In 1865, he implemented the contemporary French general ledger scheme of accounts and French accounting principles. In order to facilitate the transfer of French accounting and business knowledge to Japanese

enterprises, the government sent an official from the Industrial Department to study accounting in France [Shimme, 1937; Nishikawa, 1956].

Many Japanese enterprises in the late 19th century used accounting systems based on British practice. For example, the Nagasaki Iron Plant and the mint in Osaka. The British form of balance sheet was also adopted by national banks in 1873. Sasaki [1995] has asserted that Japanese railway companies learned from the accounting of their equivalents in Britain. Chiba [1987, 1992] has claimed that British systems were one of the two major external influences on Japanese accounting development, the other being the US Securities Acts after World War II. Dutch accounting was also influential particularly in its adopted by imperial mints. Camfferman and Cooke [2001] emphasized that the Dutch East India Company had played an important role in introducing western accounting methodology in Japan. According to Yamaguchi [2001] modern western accounting was also used by many enterprises in the Japanese shipping industry.

The Diffusion of Western Techniques: The assimilation of western accounting was effected through the publication and dissemination of accounting texts. Foreign accounting books were imported and translated into Japanese. The first book introducing modern bookkeeping to Japan was *Chooainoho* (Bookkeeping Methods). This was a translation of an American text entitled *Book-keeping* by Bryant and Stratton. The second accounting book in Japanese, also a translation, was *Ginko Boki Seiho* (Bank Bookkeeping Methods). This was published by the Ministry of Finance following a proposal by Alexander Allan Shand, a Scotsman who was employed by the government to standardize the accounting methods of Japanese national banks. Shand's proposal to use the western double-entry approach immediately received wholesale acceptance and was implemented by the First National Bank in December 1873. Another book entitled *Jimmin Hikkei Boki Teiyo* (Elementary Bookkeeping) was a translation of Marsh's *The Element of Book-keeping in Double Entry*.

The diffusion of western accounting knowledge was further achieved by the establishment of accounting schools. An institute was set up by the government in 1877 to teach bank accounting. It was followed by the establishment of the Kobe Business School in January 1878, the Mitsubishi Commercial School in March 1878, the Osaka Business School in 1880, and the

Yokohama Commercial School in 1882. These schools introduced a range of accounting subjects in their study programs. Bookkeeping was also introduced in the system for training apprentices in factories, such as the program of the Yokosuka Dockyard [Shimme, 1937; Nishikawa, 1956; Someya, 1989].

Statutory Regulation: Following western practice, Japan introduced commercial laws to regulate the joint-stock form of business organization, formulate rules for the guidance of businessmen in the conduct of business affairs and regulate corporate accounting. The National Bank Act was enacted in 1872. This statute and its related regulations set forth the first accounting rules and established uniform financial statements for national banks. This enactment had a significant influence on the wider development of corporate financial reporting. The Commercial Code promulgated in 1890 contained sections on accounting matters. Amendments to the Code in 1899 required businesses to maintain accounting books, prepare a *zaison mokuroku* (an inventory of assets and liabilities) and a *taishaku taisho hyo* (a balance sheet), and to value properties for the purpose of the *zaison mokuroku* based on their respective values at the preparation date. *Kabushiki kaisha* (limited liability companies) were required to produce three additional documents, namely a business report, an income statement, and a statement of proposed legal reserves and profit distribution. The law also required accounts to be audited and presented to shareholders. Since the legislation was drafted under French and German influences, the Japanese Commercial Code followed the continental format of financial reporting in which an inventory of assets and liabilities was to be published [Aoki, 1976; Someya, 1989; Fujita, 1991].

SOCIO-CULTURAL EXPLANATIONS

Why then was modern western accounting adopted in Japan but not in China during the mid-19th century? The search for an answer requires an examination of the important political, social, and cultural differences between the two nations. China had centralized political power, a society resistant to change, an anti-merchant mentality and narrow-based learning. In contrast, Japan had dispersed structures of political power, a society accepting of change, a pro-merchant culture and broad-based learning. It is in these four characteristics that we may locate reasons for the differing approaches to western account-

ing in the two countries. Each of these aspects are now discussed by comparing China and Japan.

Concentration versus Fragmentation of Power: China differed from most other pre-modern empires in that the foundation of its economy was agriculture. This necessitated works of irrigation, drainage, and water conservation. Tax-produce and trade commodities were transported by waterways to a far greater extent than was the case in other civilizations. Great hydraulic engineering works, dating back to the 5th century B.C., cut across the land boundaries of feudal lords. This had the effect of weakening their influence and of concentrating power in the centralized imperial government. The social system in China has been called “bureaucratic feudalism”, the “Asiatic mode of production”, “Asiatic bureaucratism” or “feudal bureaucratism”, which arose from the need to manage a vast agricultural economy. For millennia China remained an essentially agrarian country. It was also a self-sufficient economy, requiring little or nothing from outside. This isolation encouraged Sinocentrism. China considered itself as the sole civilization at the center of the world, surrounded by barbarians.

Central government assumed far reaching powers. Although private ownership of land was recognized as early as the Western Zhou Dynasty (1122-771 B.C.), the government reserved the right to interfere with landowners by levying tax, confiscating their holdings and resettling the population. For thousands of years, the main source of revenue in China came from land and there were many other taxes related to the farm structure. From the Song Dynasty (A.D. 960-1279) to the Ming Dynasty (1368-1644), the imperial government introduced various land confiscation schemes to ensure an equitable distribution of wealth [Yang, 1950].

Given the power of central government *shih*, scholar-bureaucrats, were the literary and managerial elite of the country for thousands of years. Although the mandarinates were recruited from the most able of the nation, the civil service examination system inhibited a spirit of creativity by directing intellectual activity into the narrow study of the Confucian classics [Yang, 1950; Fairbank et al., 1973].

In imperial China, a centralized bureaucratic rule was effectively supported by an equally pervasive system of ideological control. The country had a stable social structure, with no political opposition. There was a homeostatic mechanism in Chinese society which continually restored it to a state of bureaucratic

feudalism following disturbances, such as civil wars, conquests by “barbarians”, or inventions and discoveries. In spite of upheavals, the structures of governance and its underlying philosophy were maintained according to an established pattern [Needham, 1969].

The imperial court of Japan initially followed China’s example of establishing the complete supremacy of the ruler and the centralization of government. The court owned and controlled most of the land during the Taika period (A.D. 645-710) and the Nara period (710-784). Subsequently, a class of *shoen* (equivalent to manors in Europe) emerged and power in Japan was fragmented among many independent groups who continuously struggled to obtain control. They acquired huge estates nominally belonging to the imperial court. The Heian period (794-857) saw a steady growth in the number of *shoen* and their power. They were able to extend their influence due partly to the tax exemption privileges they enjoyed and also because of their acquisition of land rights from private landowners in return for military protection. The growth of *shoen* further attracted peasant landowners who attempted to escape from imperial control, thus increasing the population and economic power of the independent estates at the expense of the central authority. In the 10th century *shoen* were firmly established as the warrior aristocracy. Powerful families emerged such as the Fujiwara (the foremost court family), the Taira (a warrior clan), and the Minamoto (one of the primary military lineages). Their armed mercenaries were strong enough to resist imperial demands for tax levies and land confiscation [Murdoch, 1925-26].

In Japan, Buddhists were also sources of dispersed power. The Taika and Taiho Edicts established tax-free property for the Buddhist priesthood in the 7th century. It thus legitimately owned and controlled land which was protected by its estate army. Temple estates expanded as landowners transferred their land titles to temples for safety and endowments were received from lords. Attempts by the imperial government to control the temples were resisted. To demonstrate their power, some warrior-monks attacked the court in 1081 and 1113 and demanded redress for damages. The court had to turn to the Fujiwara for protection. In the Ashikaga period (1336-1598), the temple estates established castles and challenged the *shoen*. Although *shoen* sometimes opposed the Buddhists, they usually joined forces with the religious order to challenge the ruling authority [Takekoshi, 1930]. Thus, the concentration of economic power among various groups: the imperial government, *shoen*, mer-

chants, and priests was a distinguishing feature of Japanese society.

The several powerful groups in Japan often cooperated when threatened by fragmentary movements. The imperial government would cooperate with, for example, the Fujiwara, in order to initiate political action. The Taira and the Minamoto formed an alliance with the temples and local lords to oppose a court-Fujiwara coalition. When the Taira dominated the political scene in 1160, the Minamoto and the temples joined forces to defeat the Taira. The Minamoto then assumed control but was soon overturned by its new rival, the Hojo Regency. Disputes between powerful groups were so continuous that for the hundred years from the 1470s no central government effectively existed in Japan [Mason and Caiger, 1972]. This was the antithesis of centralized bureaucratic feudalism in China.

In Japan, political control depended on coordinating powerful independent groups. While there was a certain spontaneous homoeostasis about Chinese society, in Japan there was a built-in instability and intellectual and political conflict. Although Japan appeared to be in perpetual upheaval, this was effective in reducing intolerance and in stimulating intellectual creativity and adaptability. Hence, compared with China, Japan was less resistant to progress and more amenable to accepting western learning, including modern accounting techniques.

Resistance to and Acceptance of Western Influence: China and Japan, therefore, responded differently to western influence during the 19th century. This can be seen in their policies relation to foreign trade and industrial development.

In China, foreign trade was considered to be a tribute from inferior civilizations and was strictly controlled by most dynasties. The Qing Dynasty did not welcome foreign contacts, and policies of isolationism and self-sufficiency largely prevailed. The official view of foreign trade was summarized by Commissioner Lin Zexu as follows:

Foreign countries cannot do without tea and rhubarb for a single day. If China refrains from sharing the benefit and takes no mercy of the harmful results by stopping the trade, how would the barbarians find their living? Foreign woollen goods cannot be produced without China's silk. If China determines to be mean, how would the barbarians earn their profit? How numerous are Chinese goods needed by foreigners - food-stuff, such as sugar and ginger, and useful goods, such

as silk and porcelain. Foreign supplies are goods for pleasure and comfort only; they are not essentials. Therefore there is hardly any difficulty for China to sever the commercial relations. Why does the celestial empire allow barbarians to buy her tea, silk, and so on and show no niggardness in sharing the benefits? There is no other answer than China's intention to be generous [Chen, 1980, p. 8].

Following this policy, the government controlled imports and exports under the *gonghang* system. Under this system, 13 Chinese firms in Guangzhou monopolized trade with westerners. This geographical restriction facilitated the control and collection of customs by requiring foreign merchants to conduct their business at only one port. Other Chinese ports remained closed to foreign trade until 1840 when they were opened by force in the First Opium War.

Unlike in China, foreign trade in Japan was considered an important source of revenue. The Tokugawa's (1603-1867) attempts to prohibit the Spanish-Nagasaki trade were unsuccessful. Protected by feudal lords, merchants turned to smuggling, especially between Kyushu and Fuzhou through Formosa, and foreign trade in the ports controlled by *shoen* continued in defiance of the imperial government. Porter, an American economist, commented aptly on the Japanese attitude towards foreign trade:

Among public speakers are found not only officials whose special province is trade and agriculture, but even a naval officer of high rank has considered it not beneath his dignity to tell his countrymen that they can only become a great nation by development of trade, and that trade is as worthy of their best efforts as war [1898, p. 10].

Japan was officially opened to foreign trade in 1854. No wars were fought and no territory was ceded in the opening of the country to western influences [Takekoshi, 1930].

There were also divergent attitudes towards industrialization in China and Japan. In China modernization extended only to the introduction of certain technological innovations to the existing feudal structure. Capitalist production was adopted only to enhance the military capability of the existing regime. The Qing Government, having been defeated by foreign powers twice between 1840 and 1860, was convinced of the value of western weaponry. It therefore established arsenals and shipyards between 1862 and 1881 to produce armaments and gun-

boats. In 1881 there were about 19 government-owned arsenals and shipyards, most of which were located at Shanghai, Nanjing, Tianjin, Fuzhou, and Hanyang (Feuerwerker, 1995). When Chinese leaders later realized that arsenals and shipyards required auxiliary support, they developed military related industries, such as transportation, mining, telegraphic communications, and ironworks. In spite of their professed desire to modernize, many Qing officials believed that the basic principles of Chinese statecraft were based on Confucian prescriptions. Technology, although indispensable, was not fundamental. The hierarchy and the family code of ethics were more important than modernization. The primary purpose of industrialization was to save the country from foreign occupation and thus preserve existing political institutions and a tradition-oriented society. This ideology was not conducive to acceptance of non-military foreign knowledge, such as accounting.

In Japan, however, it was realized that modernization was essential to successfully compete with western powers. Industrialization on western models commenced in the Tokugawa period (1603-1867) and the Meiji Government (1868-1912) pursued a multitude of policies to develop new industries. Modern machinery was introduced in shipyards and iron works; new factories were erected, such as cotton spinning mills in Hiroshima; and advanced industrial equipment was imported and sold to industrialists on credit. A group of determined young leaders, such as Okubo Toshimichi, Saigo Takamori, Kido Koin, and Iwakura Tomomi, shared the view that Japan would have to modernize or go under. They therefore supported new industries by granting subsidies, tax exemptions, tariff protection and emergency relief [Crawcour, 1989; Yamamura, 1997]. They led an eager acceptance of the West, which contrasted with the inertia of the Chinese intelligentsia. This willingness to change also helps explain why Japan implemented western accounting techniques while China did not.

Anti-Merchant versus Pro-Merchant Mentality: In China, profits from trade could not be converted into effective economic power because they were hidden. The prosperity enjoyed by the merchant class vanished at the end of the period of Warring States (475-221 B.C.) when antagonism towards merchants led to various systems of control and prohibition. During the Qin Dynasty (221-206 B.C.) and the Han Dynasty (206 B.C.-220 A.D.), the rights and social status of merchants were progressively restricted by laws, regulations and state monopolies. Mer-

chants paid more taxes and could not wear silk, ride horses or own land, nor could their descendants enter officialdom. They were labeled as semi-criminals and ordered to wear white scarves around their foreheads and a pair of mismatched shoes. This policy reflected the general view that merchants were non-productive and parasitic.

Merchants were also perceived as potentially subversive because their mobility brought them into contact with a range of social groups, including officials, aristocrats and foreigners. The scholar-bureaucrats were also opposed to the wealthy merchants and mercantile values as these might threaten their own supremacy. Prevailing attitudes towards merchants were founded on ideological grounds. Some Confucianists asserted that Confucianism was anti-mercantile. Although the anti-merchant policy was relaxed during the 19th century, social antagonism towards them remained [Chan, 1977].

In marked contrast to China, the wealth of Japanese merchants was perceived among competing groups as an important attribute in the struggle for political power. This conferred a higher social status on merchants in Japan. As early as the Nara epoch merchants were given exclusive rights in some market towns, called *shicho*. Merchants were allied to feudal lords who protected their interests. They also transacted business for the imperial court and were awarded ranks and privileges. Warriors recognized the importance of mercantile wealth for sustaining warfare. By the 19th century profit-earning merchants enjoyed a distinctive and luxurious lifestyle which differed from that of the imperial authority [Fairbank et al., 1973].

Different attitudes toward mercantile activity in China and Japan are illustrated by the status of guilds. Although Chinese merchants formed themselves into guilds, these were no more than "mutual benefit societies, insurance organizations, protecting against loss occasioned in transit, and the like, but the one thing they never did was to acquire real control or power in the cities where the merchants lived and carried on their trades" [Needham, 1969, pp. 184-185]. In Japan, the state conferred guilds with rights to monopolize particular trades, set standards and prices, regulate the activities of their members, and control apprenticeship. Guilds were economically powerful because of their inter-city connections. Commercial guilds were able to protect their members against loss and their masters often became entrepreneurs during the 19th century.

In China the government had an ethical obligation to ensure an adequate supply of food and essentials by regulating sales,

setting standards, and checking the power of merchants. Government intervention had the effect of restricting the emergence of powerful economic interests in the private sector. Towns were administered for the Emperor by his civil governors and military officials. By contrast, the development of free cities and free ports was a special feature of economic life in feudal Japan. Markets were practically free from political intervention because the imperial authority benefited from a healthy commercial sector. Some markets were given local trade monopolies in return for fiscal benefits.

In the Tokugawa Period free cities, such as Sakai, grew in importance and were able to resist attempts to impose trade restrictions on them. Merchants in Japan were protected from imperial control by *shoen* and the Buddhist priesthood. Temple estates provided merchants with facilities such as storage and financial assistance. *Shoen* and temple estates encouraged the growth of free ports in the hope that an accumulation of wealth from coastal trade would strengthen the economic power of their domains. As these ports grew in size and became major trading centers, such as Hakata and Nagasaki, they formed their own governing bodies consisting of aldermen. These trading centers made use of their economic power to gain political privileges and came to overshadow their feudal protectors. It was in the free ports and cities that industrial development took root. The development of iron works in Hakata, for example, marked the beginning of the industrial revolution in Japan [Okuma, 1909-10].

The foregoing indicates why it was that from 1840 to 1894 the private sector in China was not successful in mobilizing domestic resources to pursue industrial ventures. Merchants were reluctant to commit themselves to financing long-term investments in capital-intensive enterprises. As a result, modern industries in the mid-19th century were mostly established by the government. Private investment was lacking for fear of government interference and control. Merchants were under constant threat of arbitrary trade restrictions and confiscation of property. In such a setting Chinese merchants tended to take a short-term view. They feared the risks associated with the large capital investments and long payback periods. Consequently, they invested in commercial banks, pawnshops, real estate, and other organizations perceived to be both safer and more profitable. When merchants did invest in modern industries, they preferred to do so in foreign-owned enterprises.

In mid-19th century Japan there was no ethical obligation

on the government to interfere with the economic activities of the private sector. In the absence of government control, independent merchants could play a dominant role in establishing modern industrial enterprises, although in the development of strategic industries government support was also apparent. To hasten industrialization, merchants sent Japanese technicians to study in western countries and employed foreign specialists to establish new industries. Thus, they absorbed sufficient western entrepreneurial skills to profoundly influence the economy at all levels. Encouragement came from the Meiji Government which granted profitable government contracts to new industrial enterprises. Merchant-entrepreneurs recognized the commercial opportunities which arose from their connections with government. They became known as *seisho* (political merchants).

Among *seisho* were Shibusawa Eiichi, the foremost promoter of joint-stock companies in Japan. He established more than 500 enterprises. Yamabe Takeo set up a large-scale cotton textile factory in Osaka which used steam power for the first time. Ishikawa Masatatsu established the Sakai Cotton Spinning Mill. Oshima Takato built a western-type blast furnace in Kamashi. Nakagawa Toranosuke integrated sugar cane cultivation and sugar refining [Horie, 1965]. Four most powerful industrial enterprises – Mitsubishi, Mitsui, Sumitomo, and Yasuda – established the *zaibatsu* (financial cliques) and dominated the Japanese economy. They engaged not only in industrial activities, but also in banking, insurance, shipping, and investment. The *zaibatsu* became so powerful that it eventually influenced national economic policy [Sumiya and Taira, 1979].

The achievements of Meiji merchant-entrepreneurs marked a decisive break with the past. Chinese merchants, by contrast, did not burst the shackles of the absolutist state. There was no similar entrepreneurial development in China during the mid-19th century because there was no equivalent of the 'merchant-democracy' which emerged in Japan. The absence of 'merchant-democracy' in China not only accounted for the lack of private funds for capitalist development, but inevitably played a significant role in shaping the organizational culture of the enterprise in the 19th century. Under the shadow of traditionalism, the organizational culture of the merchant class in China was ill-suited to modernization. Auyeung's [2000] study of several large Chinese companies in this period reveals the existence of a strong connection between organizational culture and the accounting system in use. Changes from the indigenous accounting systems to forms of modern western accounting would be

substantively irrational within the traditionalism which characterized Chinese organizational culture at that time.

In mid-19th century China, there were in effect two types of instruments: those fundamental to the maintenance of the state, and those which served no purpose. The reason for this separation was that while it was rational to, for example, resist foreign invasion, it was irrational to change anything else. To resist a foreign power so as to maintain the system of bureaucratic feudalism and traditional culture was *ti* ('substance', 'essence'). The modern science, technology and machinery needed to build military and military-related industries were *yung* ('instruments', 'utility') which served that purpose. In order to raise capital through public subscriptions to build these industries, China imported the joint-stock format. However, as modern western accounting had no perceived use in system maintenance it was disregarded. Replacing traditional accounting would amount to a direct challenge to the substantive rationality of *ti* by the formal rationality of *yung*. Chinese enterprises operated in a political, economic, and socio-cultural context where, in the name of system maintenance, capitalist industrialization and western accounting techniques were repressed. In Japan, by contrast, capitalistic behavior was *ti* and accounting change was substantively rational.

Narrow-Based versus Broad-Based Learning: Society and culture in imperial China were dominated by Confucianism, a system of political philosophy and ethics founded by the sage Confucius in the 6th century B.C. Confucianism focused on the correct principles of good government and of human relationships, and the application of these principles to promote social harmony and stability. Confucianism was essentially conservative and backward looking; its followers desired little change, nor could they conceive of change as beneficial. By requiring a thorough literary study and complete acceptance of Confucian classics, the state indoctrinated all potential officials with traditional norms and discouraged their receptivity to alternative ideas. The strict adherence to Confucian teaching, which was required for promotion and upward mobility within the bureaucracy, also contributed to political integration. As long as this arrangement prevailed, the cultural elite of imperial China was not motivated to embrace western concepts.

By contrast, modernization proceeded more rapidly in Japan because "knowledge of the West, and particularly its technology, was more advanced in Japan than elsewhere almost

from the beginning of Western intercourse" [Smith, 1955, p. 12]. During the Tokugawa period, Japan had five major types of schools, each with different functions and aims. Although higher education was characterized by the memorization of Chinese classics, modern subjects were also taught. Dutch studies in particular were widespread. Some schools in the early 19th century had wide curricula, including geography, physics, metallurgy and European languages. Experiments in cotton spinning, sugar refining, and the plating of metals were conducted in school laboratories [Dore, 1965]. According to Dore [1965], there were three characteristics in the traditional Japanese education that paved the way for the eventual adoption of western ideas. Firstly, the education system allowed a positive attitude towards acquiring new knowledge and instilled the notion of national improvement. Secondly, the content of formal education moved beyond the ambit of Chinese learning. Thirdly, the spread of education made the concept of universal elementary education acceptable.

Although both China and Japan had a Confucian tradition, the Meiji Restoration of 1868 abolished Confucian teaching establishments in Japan. While learning in China was a means of upward mobility for the imperial bureaucracy, learning in Japan could be utilized by people outside the ruling elite and for purposes other than socio-political. These fundamental differences towards knowledge and learning partly explain why Japan was receptive to modern entrepreneurial and accounting practices while China retained traditional methods of conducting business.

Cultural inertia in China was particularly unfavorable to the adoption of western accounting techniques for another reason. Progress would involve a change of writing instruments, ways of writing words and numerals, and methods of calculation. Instead of Chinese brushes, locally produced paper and Chinese numerals, (which were symbols of Chinese culture), pen and ink, imported paper and Hindu-Indian numerals, would have to be used. More importantly, the custom of writing vertically in Chinese calligraphy would be replaced by horizontal writing. The determination to preserve Chinese calligraphy can be seen in a letter by Li Hongzhang, an enlightened Qing official, to the governor of Jiangxi in February 1875:

That the eight-legged essays and the small regular-style calligraphy are of no value to current affairs; this is what we already know... Recently, many plans have been proposed regarding the adjustment of the exami-

nation system; they have all been rejected by the Board [in Peking]. I have merely made the initial proposal; it is up to those in power to wake up [lit., to examine themselves forcefully] and to choose a policy. To those who continue to be blind and would not be enlightened, I have already spoken - there is no point in refuting them [Liu, 1994, p. 12].

The fact that calligraphy was supported by the powerful state bureaucracy meant that it was unlikely to be discarded. Similarly, the indispensable role of the abacus was protected in China. Accustomed to learning from China and even from India and Korea, the Japanese, on the other hand, had no such sense of cultural superiority. Rather, they assumed an uneasy fear of inferiority. It was easier for the Japanese to accept western horizontal writing and Hindu-Indian numerals and discard the traditional vertical writing and Japanese numerals represented by Chinese characters. Hence, horizontal writing was introduced by early Japanese accounting textbooks, as in, for example, *Ginko Boki Seiho* (Bank Bookkeeping) written in 1873 and *Wao Chomen Kurabe* (Japanese and Western Bookkeeping Compared) in 1878. Hindu-Indian numerals were also used in Japanese bookkeeping texts, such as *Shoyo Bokiho Shoho* (Theoretical Training in the Science of Accounting), written in 1877, *Nichiyo Bokiho* (Practical Bookkeeping) in 1878, and *Bokigaku Seiri* (Theory of Science of Bookkeeping) in 1879. Moreover, when the government mint in Osaka started to adopt the English bookkeeping system in 1871, western horizontal writing and Hindu-Indian numerals were introduced. The use of Hindu-Indian numerals thereafter became widespread and was adopted by the government for the entire official bookkeeping system in 1876.

CONCLUSIONS

Chinese philosophy was introspective and mainly ethical; its academic scope was officially restricted and a traditionalist ideology discouraged creativity and innovation. Moreover, at the height of its power and prosperity, China had no need to contemplate change towards western concepts and practices. The country had a stable social structure, a powerful central government and no political opposition. For many centuries China embraced bureaucratic feudalism supported by a unified system of ideological control. This structure had a built-in quality of stability, it was resistant to change and it did not tolerate creative

and unorthodox thinking. Anti-mercantile values and structures inhibited the growth of the commercial class, capitalist enterprise and western accounting techniques.

While Japan responded rapidly to western influences, these barriers to assimilation remained entrenched in China during the 19th century. The same powerful system of bureaucratic rule and ideological control prevailed. Western learning could not penetrate this changeless order. In the mid-19th century the encroachment by foreign powers with their superior scientific knowledge made little impact on China's socio-political institutions. Only in the field of military technology was there a response. Chinese enterprises that operated within this institutional framework were unlikely to adopt modern western accounting.

In Japan there was no institutionalized anti-capitalist doctrine to stifle the rise of industrialism and the techniques associated with it. Industrial enterprises of the mid-19th century benefited from the mentality established under Japanese feudalism. This encouraged receptivity to modern practices from foreign sources such as the accounting applied by corporations in the industrializing west.

Subsequent to the developments reported in this paper China cut loose from the inhibiting traditionalist framework when the Qing Dynasty fell in 1911. The country began to modernize as part of a new cultural renaissance, particularly following the May Four Movement in 1919. Radical reformists actively adopted western accounting. Despite this change accounting development in China lagged behind Japan. After World War II both countries rebuilt their economies and again embarked on very different paths. While China became a centrally controlled communist regime in 1949 and developed its fund-based accounting system for a closed-door economy, Japan broke up the *zaibatsu* conglomerates, adopted a policy of economic democracy, and developed an accounting system along the American model. These developments offer fruitful subjects of future enquiry in comparative international accounting history.

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PRIVATIZATION AND MANAGEMENT ACCOUNTING SYSTEMS CHANGE: THE CASE OF THE 19TH CENTURY SPANISH TOBACCO MONOPOLY

Abstract: This paper examines changes to the accounting system of the Spanish tobacco monopoly in 1887, following the decision by the state to lease the publicly owned and state-run monopoly to a private-sector company. The switch to private-sector management generated a fundamental change in the demands made of the accounting system. As a result, double-entry bookkeeping and a new method of calculating costs were implemented. The paper discusses the motives behind the design of the new accounting system and its consequences using the framework provided by agency theory. It highlights the need to consider the role of the capital structure of the firm and the state as explanatory factors for both the parameters and uses of cost accounting information.

INTRODUCTION

Contributions addressing the emergence of cost accounting practices in organizations have provided important insights into the broader processes involved in the production of accounting information. Competitive pressures [e.g., Johnson and Kaplan, 1987; Edwards and Newell, 1991; Fleischman and Parker, 1991,

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1997], enforcement of disciplinary practices [e.g., Hoskin and Macve, 1986, 1988], and the quest for greater labor productivity [Hopper and Armstrong, 1991] have been highlighted as underpinning the development of cost management systems. Much of this research has focused on Anglo-American settings characterized by strong, competitive environments. In spite of several contributions on the role of government agency [e.g., Ezzamel et al., 1990; Tyson, 1993], evidence about the nature of and motives behind such practices in other contexts is still needed. This paper, by examining the privatization of the Spanish tobacco monopoly in 1887, will explore the impact of ownership structure on management accounting systems. This privatization did not entail changes either in the competitive environment or in the productive technology used by the industry, allowing us to isolate the influence of the shift from public to private ownership on such practices. Archival evidence was gathered from three primary sources. The Archive of the Tobacco Company (*Archivo de Histórico de la Fábrica de Tabacos de Sevilla*, AHFTS) and the Intermediate Archive of the Tobacco Company (*Archivo Intermedio de la Fábrica de Tabacos de Sevilla*) constitute comprehensive sources for understanding internal developments at the tobacco factory. In addition, the Bank of Spain houses the Archive of the Bank of Spain (*Archivo Histórico del Banco de España*, AHBE), which is essential for investigating the privatization of the tobacco monopoly.

In recent times, the Spanish tobacco monopoly has been extensively studied. Carmona et al. [1997] examined from a Foucauldian perspective the implementation by 1773 of a cost accounting system. They showed cost calculations to be part of a strong disciplinary regime that enhanced visibility and served to establish a system of calculability that rendered human accountability visible. Carmona et al. [1998] used an institutional theory framework to explain changes to financial and cost accounting practices throughout the period from 1760 to 1790. They concluded that new accounting practices emerged as a means of enhancing the external legitimacy of the organization. Carmona and Macías [2001] studied the implementation of budgets and cost accounting procedures in the period from 1820 to 1887. They focused on the state's motivation in exerting institutional pressures aimed at the implementation of early cost management practices and studied different organizational responses to simultaneous pressures arising from a single institutional source. In the period analyzed in all these papers, the monopoly was publicly owned and state-run. Finally, Macías

[2002] explored determinants of accounting disclosure by analyzing the evolution of corporate financial reporting throughout the first leasing contract (1887-1896). The current paper also analyzes the impact of the privatization process but is significantly different in its exploration of the factors driving the design of management accounting information at the factory level, the tobacco factory of Seville being the unit of analysis. It is argued that the shift from public to private management entailed a fundamental change in the philosophy of management, with profitability and efficiency being privileged. Thus, a new demand for accounting information emerged with an appropriately redesigned accounting system.

The remainder of the paper is divided into five sections. In the next section, the theoretical framework is discussed. The historical context, the characteristics of the tobacco industry and the privatization process is then discussed. The subsequent section deals with the impact of privatization on management accounting systems. This is followed by a discussion of findings and conclusions.

THEORETICAL FRAMEWORK

Agency theory has highlighted the influence of different divisions of property rights in the emergence of efficient organizational forms [Jensen and Meckling, 1976]. The definition of property rights affects both the incentive schemes and the design of control mechanisms that regulate the relationship between principal and agent. In state-owned firms, the diffuse nature of ownership provides owners with low incentives to control management. Managers of state-owned firms may behave in ways which are not consistent with the interests of owners for three main reasons: (i) the existence of multiple objectives [Rees, 1984; Utton, 1986]; (ii) the absence of tight, external controls given no threat of take-over [Wright and Thompson, 1994] or bankruptcy exist [Kornai, 1986; Vickers and Yarrow, 1988; Stiglitz, 1989]; and, (iii) the existence of soft, internal control. Monitoring systems are expected to be bureaucratic, focusing on legal aspects [Bös, 1991]. Private ownership, on the contrary, is assumed to enhance management accountability and improve performance [Donahue, 1989; Jensen, 1989; Zeckhauser and Horn, 1989; Goodman and Loveman, 1991]. The assumption that ownership *per se* creates an environment that is conducive to high or low performance has been contested [Aharoni, 2000, p. 50]. Economic literature has tradition-

ally focused on Anglo-Saxon and other developed economies in which privatization has been undertaken through the selling-off of public enterprises in a context of simultaneous deregulation and the prevalence of external control mechanisms. However, this scenario is not always the case. Recent literature on privatization [e.g., Dharwadkar, 2000; Ramamurti, 2000] has examined the situation in emerging economies where neither capital markets nor economic institutions are well-developed, emphasizing the importance of government's residual ownership and the type of capital the firm attracts to understand the results of privatization cases. Post-privatization operations of the firm and the strategy of the acquirer may be heavily influenced by the terms stipulated by government [Freudenberg and Bird, 1991; Uhlenbruck and DeCastro, 1998]. The outcome of privatization is not always the same type of private firm. Therefore, factors such as national characteristics, the role of the state, and the internal organization of the privatized firm may explain changes in management concerns and the behavior that follows privatization processes [Lenway and Murtha, 1994; DeCastro and Uhlenbruck, 1997; Uhlenbruck and DeCastro, 1998; Aharoni, 2000].

This paper addresses a privatization process with strong similarities to the situation that exists when control mechanisms develop in emerging economies. The paper attempts to explain changes to the management of the tobacco monopoly following the 1887 privatization and its implications for accounting systems. Accounting systems are part of those organizational mechanisms that monitor and evaluate the decision-making behavior of agents, representing an important issue for understanding the differences between public and private management [Fama and Jensen, 1983].

THE EVOLUTION OF THE TOBACCO MONOPOLY: FROM HIERARCHICAL TO CONTRACTUAL ARTICULATION

The tobacco industry was monopolized in 1637, becoming one of the main *fiscal* monopolies in Spain. Fiscal monopolies are legal reservations for private firms to engage in certain economic activities, acquiring from the state exclusive rights for the provision of a product or service and giving rise thereby to a double-layer, agency relationship. The state acts as an agent for citizens as the ultimate owners but simultaneously becomes a principal by granting the monopoly. When the state is the principal in an agency relationship, two crucial issues emerge [Lane,

1997]: (i) the public or private nature of the agent with which the government is willing to interact, and (ii) the way in which this interaction is articulated. This can be broadly classified in hierarchical or contractual relationships. The election of a private or public agent concerns institutional arrangements; that is, how to regulate, contract, and control so as to impact directly the incentives and sanctions that encourage managers to improve performance [Bös, 1991; Odgen and Watson, 1996].

The monopolization of the Spanish tobacco industry was at first seen as a way of avoiding technical problems in tax collection and of minimizing corruption through the implementation of more direct control [Maureta, 1975]. While the tobacco monopoly was enacted in 1637, some private activities were maintained. In 1731, however, the state took full control of the industry, concentrating manufacturing in the factory of Seville and creating a special department (Steering Agency at the Treasury Ministry, SATM) to manage it. Direct management, it was thought, would generate an increase in the state's revenues through an improvement of control and efficiency [Rodríguez Gordillo, 1990].

The Tobacco Industry in the 19th Century: Since the early years of the 19th century, the organization of the tobacco industry underwent dramatic changes linked to political and ideological developments. In 1830, the last absolutist king, Fernando VII, died and the country entered into a long and far reaching period of change. The transition from the *ancien régime* to a modern state implied major institutional reforms. With regard to the organization of economic activities, liberals began a process of deregulation and dismantling of state-owned enterprises. This process never crystallized in the case of the tobacco monopoly despite the ideological opposition of liberals to monopolies. The financial distress of the state and the importance of the tobacco industry to the state's finances (in the 19th century it represented, on average, 12.5% of ordinary income) aborted every attempt to deregulate the monopoly. The liberal courts of Cadiz made the first move towards liberalization in September 1813, but as soon as the political situation reversed in 1814, the monopoly was reinstated. In 1821 liberals gained political power and the tobacco industry was likewise deregulated. However, a decrease in the state's income and a political change provoked a reversal in the government's mind and a return to the monopoly. In 1844, the tobacco industry was leased to a private company, and, again, a political change ended in the restoration of direct

management by the Treasury. In 1852, Parliament began to discuss the deregulation, and a new proposal of liberalization was included in the Constitutional Law of 1855. Once more, political change impeded implementation. In April 1866, there was a partial deregulation of the tobacco industry, affecting only the Spanish colonies of Cuba and Puerto Rico. This measure lasted just a few months. The Revolution of 1868 brought further changes. In June 1869, the tobacco and salt industries were deregulated, but, in 1871, the situation was again reversed as the monopoly was re-imposed. Finally, in 1887, management of the industry was leased to a private company.

By the time of privatization, the tobacco industry was large and complex. The industry was comprised of different operating units. Acquisition was organized by the SATM and the Dirección General de Contabilidad through agents at a number of places (Spain, the U.S., the American colonies, and the Philippine Islands). Manufacturing operations were developed in nine factories, managed by the SASM, though the Dirección General del Tesoro Público was in charge of cash operations. Sales and distribution were also organized by the Dirección General del Tesoro Público through a system of provincial and local warehouses that supplied more than 18,000 tobaccoists. Finally, one of the critical aspects of the industry, the fight against smuggling, was within the purview of the Army. The industry endured a tension between subordination to the administrative hierarchy, while at the same time exhibiting a certain level of economic and accounting flexibility [Tejerizo López, 1975]. Whereas a degree of independence in its functioning existed, a subordination to hierarchical rules and bureaucratic procedures anchored efficient management, especially in the context of a political instability that led to a high turnover of the ministry's head officers. This in turn impaired consistency in reform efforts throughout the century.

The tobacco industry employed approximately 32,000 manufacturing workers, most of them female. Within the factories, work was organized by product lines [García de Torres, 1884]. Each product line (cigars, plug tobacco, cigarettes, and, subsequently, snuff) constituted a "factory" under the charge of an operating manager, assisted by several middle managers. Factories were composed of a number of workshops directed by a *maestra*. *Maestras*, middle managers, and operating managers were state employees. They received a monthly salary and were charged with controlling the production process and recording the flow of tobacco leaves and products. The rest of the work

force received piece rates that corresponded in amount to the complexity of the product manufactured. Tobacco leaves were distributed daily to the workshops with the physical flow of tobacco recorded by the *maestras*. They were also responsible for assessing the conformity of final products to quality requirements. Careful tracking of the production of each worker was kept and served as the basis for wage payment. Operating managers also kept records of the tobacco distributed and the final products received from the different workshops.

Piece rates and the composition of tobacco products were fixed by a number of legal regulations. Both were established when a new product was launched. In these cases, *experiments* were run to determine the blend of tobacco and the time spent in manufacturing so that an adequate salary could be determined based upon the difficulty of the task. Although extensive legislation covered every aspect of work in the factories, a lack of uniformity became a major concern for the ministry as the industry expanded. Regulations covered the blend of different tobacco leaves for each product, the proportion between input and output, and other technical specifications such as length, thickness, or weight of final products. As time passed, these rules hardened into production standards, impairing improvements in efficiency as they were seldom revised [Comín and Martín Aceña, 1999]. Additionally, in spite of the extensive regulation, uniformity was difficult to achieve because the quality, as well as the physical aspect of the final product, was highly dependent upon the dexterity of individual workers, the quality of the tobacco leaves received, and the speed with which products were distributed to consumers.

While the Treasury attempted to increase centralization in decision making throughout the century, the growth of the industry and the political circumstances affecting public administration served to divorce decision making from action [see Carmona and Macías, 2001]. For instance, Delgado [1896] considered that the organization of the factories by 1887 was “as diverse as the number of factories.”

The Privatization of the Tobacco Monopoly: The motivations for privatizing the tobacco monopoly derived from the difficulties the government faced in balancing the public budget. By 1887-1888, according to the state's general budget, the funding needs rose to 65,812,000 pesetas [Instituto de Estudios Fiscales, 1976]. The tobacco industry was a profitable activity in spite of the previously mentioned efficiency problems. It represented one of

the main sources of income for the state, but the government considered that the contribution of tobacco to the public finances could increase if certain reforms were implemented. Throughout the century, the industry faced a quasi-permanent excess of demand which the state had tried to address through an expansion of the number of factories [Alonso Alvarez, 1996]. At the time of privatization, new technologies had become available, so the required expansion could have been achieved either through the mechanization of the production process or by adding more factories to the existing ones. Both these alternatives implied the allocation of additional resources to the industry. Additionally, a speedy reform under public management was thought to be difficult to achieve, so the chosen alternative was to lease the industry's management to a private firm, something that would perpetuate state control and simultaneously facilitate the introduction of the required reforms [Torres Villanueva, 1998].

Moreover, according to the Treasury Minister, the maintenance of public management addressed another problem. The turnover of head officers in the ministry created serious difficulties in the design and implementation of a reform agenda. Private management, by contrast, with the incentive of significant, though deferred gains, would implement the required reforms to enhance performance.

The law authorizing the lease of the tobacco monopoly was enacted on April 22, 1887. The law required that the lessee be a Spanish company, independent of foreign groups, and that the duration of the lease be fixed at 12 years. The contractor was subject to a yearly rental, composed of a fixed amount (canon) plus a variable amount that depended on yearly profits. The term of the contract was divided into four sub-periods for calculation purposes. The canon consisted of a moving average, the amount to be paid calculated as follows. For the first three years, the canon was 90 million pesetas. For the second sub-period, the fixed amount would be the average of only the second and third years. A like computation was performed for the third and fourth sub-periods, the canon being the average of the prior sub-period. The variable part of the payment depended on the difference between net income and the canon. If net income was lower than the fixed amount established for that period, the contractor would bear the loss. In the opposite case, the surplus was shared equally between the state and the lessee.

The contractor was to maintain the existing factories, build three new warehouses in the first three years of the contract,

and construct three new factories *with all the modern advances* [Art. 8, Law 22nd, April 1887] during the first half of the contract. These investments were to be repurchased by the state at the term of the contract, thus requiring the previous approval of the Treasury Minister. The lessee would take over all the contracts signed by the Treasury. Once expired, the lessee could begin to contract with new suppliers. However, the government, in order to promote agricultural development, imposed the requirement that a certain volume of tobacco leaves had to be imported from the colonies and the Canary Islands.

The lessee had to preserve the number, types, and prices of existing products. While modifications to existing products required the approval of the Treasury, innovations only required notification to the Steering Agency. The contract established a distinction between employees (managers and clerks, formerly state employed) and workers. The lessee was committed to maintain at least 75% of the workers employed in the factories in 1886-1887. The hiring of new employees was not regulated. The lessee could hire its own employees, who would be subject to private rules rather than laws formerly imposed by the state.

Finally, a public monitoring system was devised. This was grounded in three fundamental bases: (i) intervention and direct control, (ii) a fee to assure the proper care of productive assets, and (iii) the imposition of a system of penalties that could imply the rescission of the contract. Direct control and intervention were the responsibility of a governmental delegate who would work at the head offices of the lessee, at the expense of the contractor. The delegate's duties included the physical inspection of different business locations, raw materials, and production, as well as the audit of accounting records, whether at the corporate or factory level. The main concern was to monitor the regularity of accounting operations. The governmental delegate could veto any decision that could harm the state's interests. The contract included legal sanctions for any potential breach of the contract. While the sanctions were mainly financial penalties, they could lead to the rescission of the contract.

The strict conditions imposed by the law and the resources required to run the tobacco industry¹ may have inhibited the

¹ The contract included the possibility for the state to obtain a loan from the lessee [Art. 19]. The amount of this loan was fixed at 8 million per remaining year of the contract which meant that, at the time of the concession, the State could claim 96 million pesetas. Additionally, the contract required the lessee to deposit a fee [20 million]. Loan, fee, and minimum rental [90 million] repre-

bidding process. Additionally, the importance of the tobacco monopoly for the state's finances forced the government to be very cautious over its choice of agent. Therefore, while the proposal of the leasing law was being discussed by Parliament, the government began a bargaining process with a particular candidate, the Bank of Spain, which at that time was a private company, but one that was highly dependent upon its relationships with the state.² The government knew that with the Bank being in charge of the tobacco industry, there would be no threat of bankruptcy or fraud since all the Bank's other relationships served as collateral. Additionally, the Bank commanded the required financial resources needed to develop the industry. The government exerted a strong pressure on the Bank to assure that the tobacco industry would be assigned to it despite the existence of other bidders. In order to avoid competition in the bidding process, the Bank's board contacted these other potential investors and brought them together in a joint proposal. Bank and investors came to a private agreement before the law was enacted on April 22, 1887. Immediately after winning the bid, the Bank and these investors founded the *Compañía Arrendataria de Tabacos* (CAT) to run the business.

The capital of the firm was initially 60 million pesetas of which the Bank of Spain held one half, either directly or indirectly, thus assuring its control of the CAT's board of directors. The capital structure of the CAT underwent major changes in its early history as the Bank held only 20% of the total shares when the first annual shareholders meeting took place. However, the dominant position of the Bank was not questioned:

sented a considerable initial investment. Moreover, the lessee had to acquire existing inventories of raw materials and stored products, which, though subject to bargaining, amounted to approximately 50.9 million pesetas [AHBE, Sec. 789]. Putting all these figures together, the investment could be as high as 258 million pesetas, an amount that had to be added to the resources needed to run daily operations.

² Nevertheless, as Comin [1996, p. 149] stated, "the Bank of Spain was, until 1962, a private owned company, pursuing as such, profit maximisation in its financial operations, in order to distribute dividends, as required by shareholders. Whereas the Bank interacted closely with the state, it did so to obtain a return. Moreover, in those cases in which doubts on the profitability of co-operation existed, it simply refused to collaborate with the Government, as was, for instance, the case in 1850." This is to say that cooperation did not imply that the Bank was semi-public in nature. Rather, it was a fully privately-owned entity whose shares were listed on the Madrid Stock Exchange.

Once the issue of the social capital was solved, the Commission thought that it should reserve for the Organisation the majority on the Board of the new Society, as the lease management fundamental guarantee, both to the Bank itself and to HM. government in their reciprocal relationships [AHBE, Operaciones, n° 954].

Nine directors, the general manager, and the vice-president of the CAT were members of its board, five of whom sat on the Bank's board as well, thus assuring control over the firm's activities. Additionally, the Bank monitored the CAT's activities strictly and controlled its cash flows. The Bank was the exclusive financial intermediary with which the CAT was allowed to negotiate. It intervened in every transaction carried out by the CAT [Art. 37, Company's Statutes, REBE, e22301].

THE IMPACT OF PRIVATIZATION ON MANAGEMENT ACCOUNTING SYSTEMS

Management Accounting Systems under Public Administration: This section will focus on the tobacco factory of Seville, which was the largest and more complex of the factories constituting the monopoly. The activities of the factory at Seville were concentrated in three main product lines: cigars, cigarettes, and plug tobacco. Additionally, some sporadic dealings in *rapé* (French snuff) were undertaken. Though Spanish snuff production was legally stopped by 1840, some accounting records were retained in order to control existing inventories.

Under public administration, accounting was divided into two main sections: 'accounting office' and 'factories'. The factories' accounts were the responsibility of operating managers, middle managers, and *maestras*, while the accounting office was under the charge of the accountant, assisted by several clerks and bookkeepers. The accounting office was in charge of monitoring and controlling the techniques developed in the factory. It examined, censored, and arranged all the factories' accounts to assure their conformity with the *general* accounts. The series of accounts of the 'accounting office' can be divided in two categories: *general accounting* and *treasury (cash)* (see Figure 1).

The factories' accounts were comprised of six basic sets of accounts: *Cigars*, *Plug Tobacco*, *Cigarettes*, *Rapé*, *Snuff*, and *Intervention*. These described in physical units the different productive processes and screened the progress of raw material through production stages [e.g., legs. 1640, 2176, and libros 1082, 1084, AHFTS]. Raw materials were received in *General*

FIGURE 1
Factories' Accounting Under Public Administration

ACCOUNTING OFFICE		
<i>GENERAL ACCOUNTS</i>	<i>TREASURY</i>	FACTORIES
1. <i>Alcaidia</i> : reception and outlet of tobacco	1. General Charge/discharge Accounts	1. Cigars
2. General Manufacturing Accounts:	2. Balance Books	1.1. General account:
2.1. Packaging and Bottling	3. Justifications and Expenses Book	1.1.1. Stores
2.2. Finished Products	4. Payment Justifications	1.1.2. General summary
2.3. Tobacco Leaves	5. Auxiliary book for cash entries	1.1.3. Weekly notes
3. Statements to be sent to Central Administration:	6. Salaries and wages	1.1.4. Annual account
3.1. Public incomes	7. List of workshop employees	1.2. Cigars
3.2. Public expenses	8. Retention (liabilities, pension, etc.)	1.3. Workshops
3.3. Budgets and consignments		1.4. Finished Products
3.4. Cost accounts		2. Plug Tobacco
4. Inventories and General Re-weights		2.1. Tobacco leaves in stores
5. Outlet Accounts		2.2. Plug in Machines
		2.3. Bottled Plug
		2.4. Plug in distribution stage
		3. Cigarettes
		3.1. Workshops
		3.2. Notebooks
		4. Snuff
		4.1. Snuff account
		5. Rapé
		5.1. Tobacco leaves
		5.2. Rolls
		5.3. Machines
		5.4. Repose
		5.5. Fermentation
		6. Intervention
		6.1. Materials entrance and outlet
		6.2. General outlet
		6.3. Bills

Store, where different accounts were held to register the reception and subsequent reallocation of tobacco leaves and auxiliary materials to the different factories and workshops. Operating managers had to render accounts for the raw material distributed to each workshop; the volume of discards, stems, or waste; and the final production manufactured daily. Changes reflected

by these accounts were shaped by modifications in production processes or products.

The same accounts were registered in "*Intervention*" so that the accounting office could check the figures exhibited [e.g., libro 599, AHFTS]. When discrepancies were found, the accounting office started the process of determining who was responsible. Otherwise, the accounts were summed and checked in order to forward them to the pertinent offices in Madrid, where the figures were rechecked and compared with the resources allocated to each factory.

The *General Accounts* were comprised of five basic sets of accounts that had to be sent to several public institutions. *Reception and Outlet of Tobacco and Other Materials* [e.g., libros 1074, 1080 AHFTS] controlled for all factors of production entering and exiting the factory. *General Manufacturing Accounts* [e.g., leg. 2286, AHFTS] were compiled on the basis of information provided by the factories' accounts. There were three different accounts (*Packaging and Bottling*, *Finished Products*, and *Tobacco Leaves*), all of which tracked the inventories of all materials and production by class of product. These accounts were kept in physical units since their main purpose was to help the central services devise the operations schedule. The SATM established the monthly volume to be manufactured of every product in every factory, taking into account consumption trends in different geographical areas, the existing inventories in the factories, and their productive capacity. The *Statements to be Sent to the Central Offices* [e.g., leg. 2169, AHFTS] included four basic accounts (*Public Revenues*, *Public Expenses*, *Budgets*, and *Consignments*, and *Cost Accounts*). While the first of these was not relevant in the context of the factory, *Public Expenses* and *Budgets* reported the basic accounts for decision-making purposes. Financial resources were allocated using monthly budgets prepared by the factories, while expense accounts served to certify the use of such resources. Yearly cost calculations were also to be sent to the central offices. *Inventories and General Re-weights* [e.g., leg. 2357, AHFTS] tracked the physical inventories that were carried out yearly. Finally, in *Outlet Accounts* [e.g., libro 902, AHFTS], all items that left the factory were recorded.

Finally, the *Treasury (cash)* section included a set of eight accounts that controlled the flow of cash, as well as the source materials documenting those flows. The *General Charge/Discharge Cash Account* was the most important as it provided the basic information required to compile the *Statements to be Sent to the Central Offices*.

The charge/discharge bookkeeping method allowed a strict control of tobacco flow. As a reflection of the fiduciary nature of ownership, accounting systems under public administration were complex and subject to duplication. The main purpose of these systems was to ensure the proper use of public resources, but they provided little help in decision making. Operating managers, the accountant, and the factory's director were considered personally responsible for any shortage of tobacco. Accounting was the basic tool utilized to control their behavior.

To sum up, the main characteristics of the accounting systems under public direct management were:

1. Heterogeneity in the specific accounting systems implemented in the factories. This derived from the concern with monitoring the physical flows at the various stages of production. Accounting systems were highly dependent on the nature and organization of the production process.
2. Accounting systems focused on ensuring the legal use of resources, both physical and financial, leaving aside managerial aspects. This lack of managerial concern was enhanced by two factors: (i) the profitability of the industry guaranteed by the monopoly, and (ii) the fragmenting of the monopoly into three main branches (acquisition, manufacturing, and distribution), each managed by different administrative entities. To a large extent, there was no accounting consideration of the business as a whole.

Post-privatization Management Accounting Systems: Despite the general agreement that it is not ownership itself but managerial accountability that may fundamentally distinguish public from private enterprises [e.g., Vickers and Yarrow, 1988; Donahue, 1989; Jensen, 1989; Zeckhauser and Horn, 1989; Goodman and Loveman, 1991], most of the research on privatization has focused on the financial effectiveness of such processes rather than on the differences in methods utilized to control managerial behavior. Agency theory predicts that privatization will lead to the design of new managerial controls, including accounting systems. However, research has focused on capital markets as a means to monitor management. This is the general case in Anglo-Saxon settings where capital markets are well-developed. This assumption, however, is not so clear in contexts such as less-developed countries, like 19th century Spain, where external control mechanisms were weak and economic activity in

general appeared to be strongly influenced by government. In these cases, the role of the state and the kind of capital the privatized firm attracted may help to explain the impact of privatization on the design of control mechanisms.

The privatization of the tobacco monopoly brought about, in accordance with the theoretical predictions, a change in management accounting systems. However, the change was not immediate. At first, the CAT decided to keep the basics of the former system so that managers could study information needs and the most efficient ways to satisfy them, while simply introducing some modifications to provide more useful information. However, the intention of the CAT to change the accounting system was made clear immediately after privatization. This was reflected in a letter of July 8, 1887:

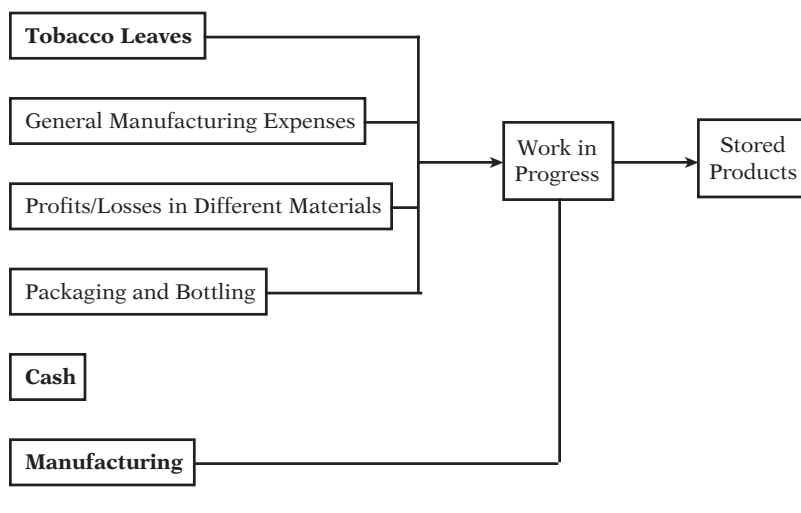
... while this General Direction decides how should the Tobacco Factories' accounting be organised and the way in which charge and discharge books should be kept by the different units under your responsibility, you shall continue accounting operations according to the current system [AIFTS, leg. 354].

In January 1889, a new accounting system was implemented [AIFTS, leg.2]. The CAT designed an integrated system, common to all the factories. The system was articulated on four basic accounts: *Tobacco Leaves*, *Packaging and Bottling*, *Manufacturing*, and *Cash*. The *Manufacturing* and *Cash* accounts represented the basic instruments of overall management and control, while the *Tobacco Leaves* and *Bottling and Packaging* accounts were used mainly for internal control inside the individual factory. The *Cash* account was considered the most important for it served to articulate the general accounting for the enterprise.

These four accounts were prepared on the basis provided by a set of auxiliary accounts that described the different activities developed in the factories: *Work in Progress* [e.g., libro 600, AIFTS], *Stored Products* [e.g., libro 583, AIFTS], *General Manufacturing Expenses* [e.g., libro 585, AIFTS], and *Losses and Benefits in Different Materials* [e.g., libro 599, AIFTS] (see Figure 2). Finally, the system included four auxiliary books for *Intervention and Cash* [e.g., libros 592-597, AIFTS].

As shown in Figure 2, the pivot of the new system was the *Work in Progress* account. This book contained a separate sheet for every product, with debits for all manufacturing expenses and credits for finished products transferred to *General Store*.

FIGURE 2
Factories' Accounting Under Private Management



This account was related to the *Packaging and Bottling*, *Tobacco Leaves*, *General Manufacturing Expenses*, and *Losses/profits from Different Materials* accounts. The latter monitored the use of prime or auxiliary materials, being debited for scrap, waste, or stems of tobacco leaves, useless packaging, and other auxiliary materials and credited when these residuals, by-products, or stem were sold out. The *Manufacturing* account and the *Work in Progress* accounts showed a similar structure, both disclosing the cost at the factory level (that is, without including the apportionment of general administration and distribution costs) of the manufactured products.

The *Tobacco Leaves*, *Packaging and Bottling*, *Work in Progress*, *Stored Products*, and *Cash* accounts were to be balanced monthly with the results sent to Madrid within the period spanning the last day of the closing month and the first days of the next month. This duty was subject to financial sanctions (of 25 pesetas in 1889 [leg. 2, AIFTS]). Accounting information was complemented by other statements containing information on employees, budgets, and entry inspections of raw materials that were not classified as accounting data *per se*.

Cost accounting also experienced significant changes in two respects. First, costing records became fully integrated into the main accounting system. Costs were determined monthly in the *Work in Progress* account and were also reflected in the *Manu-*

facturing account, corroborating the findings of Boyns and Edwards [1997] for the U.K. coal, iron, and steel industries. The integration of cost calculations in the general accounting system enhanced the regularity of reporting both because costs were reported monthly and because factories complied with these requirements. Under public administration, the tobacco factories had been required to prepare yearly cost calculations, but this information was not regularly reported.

Cost calculations underwent a major transformation since the common price per type of raw material was abandoned in order to calculate what was termed 'real' cost of products [Delgado, 1896]. Prior to privatization, the Treasury calculated a common weighted cost for raw materials. The reason for this, as stated by the Treasury, was to avoid differences in costs due to the variability of purchase prices. To resolve this problem, the accounting office provided factories with a yearly weighted-average cost of raw materials to be used by all factories. Cost information was required to control the efficiency within the different factories, so it made no sense to account for cost differences that were beyond the scope of managerial control. The CAT understood that with this system some 'low class' products were subsidizing 'high class' products, resulting in incorrect calculations of product margins. This could affect decision making with regard to product mix. Hence, immediately after privatization, the calculation method was changed to one based on using the real cost of the raw material consumed. Overheads continued to be allocated using the same system as under public control; i.e., they were allocated to products either according to the volume of raw material or the level of production. Cost reports included the matching of sales revenues against the cost associated with particular products, providing information about the profitability of individual product lines.

The Use of Cost Reports: Several uses of cost accounting may be outlined. First, cost accounting was used for inventory valuation. According to the 1885 Code of Commerce [Art. 157], private corporations should prepare and publish a monthly balance sheet in the *Madrid Gazette*. To comply with this requirement, inventories had to be valued. Second, evidence of the use of cost calculations for decision making appeared immediately after privatization, although still based on the public accounting system. For instance, cost information was used for production decisions. The new calculation method revealed, as was mentioned above, that some *high class* products were not profitable

for the CAT, as was the case for two types of cigars, *Conchas* and *Regalías*. The 1887-1888 annual report explained this issue:

The existing products and their related costs called the attention of the Board of Directors who soon felt the need to rectify the former simulated cost calculations, in order to know the real return of every product. It is clear that those products requiring high quality tobacco leaves . . . benefited from such system [use of weighted average prices for raw material], damaging all those products consuming low quality leaves. The production of *Conchas* and *Regalias* were first interrupted and, after getting the governmental permission definitively eliminated [Memoria 1887/88, CAT, p. 14, AIFTS].

Another example of the use of cost information for decision making is also to be found in 1887. The CAT needed to reorganize workshops. As long as the number of workers could not be dramatically reduced, efforts were devoted to reducing labor costs. For instance, in a letter addressed to a factory manager on October 3, 1887, the company's general director said:

I hereby order the elaboration and dispatch to this office as soon as possible of a detailed statement containing the special, long and short, tipped and sticked, white and tobacco paper, cigarettes existing in that Factory as at 30 September. The statement shall show firstly their value at cost, secondly their value at sales price, and thirdly gross margin of the previously mentioned products. These statements should be accompanied by another showing the amount paid by hundred thousands of those products as wage expenses, disclosing the information by the different tasks stated in the Regulation n°3, 5 October 1883.

Afterwards you will show how much a worker in those tasks could earn during both a day and a month, without any kind of limitation in scheduled tasks. Lastly, you shall propose the modifications and reductions you consider to be convenient in piece-rate, so that they diminish to a fair rate that, providing the worker with appropriate earnings according to the delicacy of their work, does not result in such a significant disproportion [Carta n° 197, legajo 354, AHFTS].

The CAT gathered proposals from all the factories and modified piece rates accordingly. The use of cost information for labor cost reduction is also in evidence, in 1891 when a modification of the *Work in Progress* account was enacted. A

new format was introduced, disclosing information on the use of raw material, and other uses of cost reports were suggested. The purposes of this reform, as stated by the CAT, were the following:

. . . (i) to determine the maximum of stem, dust, waste and disposals that should result as average in the manufacturing and use of cut tobacco. . . ; (ii) to establish adequate wages for all tobacco products in every Factory; (iii) . . . thereby we will be able to determine which Managers have devoted their efforts to comply with the Company's wishes; which ones have done their best, but did not succeed because of problems they surely will solve in the future; and, finally, which ones are opposing passive resistance to what is established in the Regulations. . . While the previous period was considered as a test-period . . . since this current month we will punish those who do not achieve the outcomes that logically can be expected [Legajo n° 4, AIFTS].

This document suggests the use of cost reports for labor cost reduction, the establishment of standards, and managerial performance evaluation. According to the evidence found, privatization had no major implications for labor control which continued as it had done under public administration. Cigar rollers' production was carefully tracked since it constituted the basis for the determination of their salaries. Supervisors (*maestras*) were in charge of 'receiving' the production, rejecting those products that did not conform to specifications, and recording the daily production of the workshops. As mentioned above, both technical standards and piece rates were fixed by a number of regulations. The CAT tended to concentrate its efforts in those areas that were perceived as critical for the success of the company. As far as the work of the factories was concerned, the major problem was not to control the time of workers, but ensure the quality of their production, which was the responsibility of supervisors and managers.

Cost accounting provided information to monitor managerial behavior. The CAT's main purpose was to avoid laxness in the inspection of materials and products. Several reasons may explain this lack of concern with disciplining labor. Cigar rollers were subject to piece-rate wage systems that reduced the pressure to control time, but rather provided economic incentives to comply with budgeted production. However, controlling for absenteeism could have been an important issue, taking into account the characteristics of tobacco production which required

high skills and dexterity. Absenteeism was high, but it did not represent a major problem because the existence of slack resources ensured that production schedules were easily met. Additionally, a fundamental reason lay in the role the government played protecting the cigar rollers against the CAT. This was evident immediately after the privatizing of the monopoly [Comín and Martín-Aceña, 1999]. The first president of the CAT initially attempted to impose a more severe disciplinary regime by reducing the flexibility of timetables and controlling for absenteeism in the Madrid factory. Cigar rollers reacted, as usual, in a rather violent way, and the president decided to lock the factory. The government reacted immediately, ordering the factory to be reopened. As a result of this confrontation, the president resigned, and the CAT came to understand that avoiding conflicts with labor was more important than increasing discipline if good relations were to continue with the government.

DISCUSSION

Privatization processes represent an area of growing interest the economics and management literature. However, research has focused on developed economies characterized by strong, external control mechanisms. Evidence relating to contexts in which external control mechanisms are not well-developed remain scarce. Moreover, little is known about the impact of such processes on accounting systems. This paper by addressing the case of the 1887 Spanish tobacco monopoly privatization attempts to add evidence on the impact of the shift in ownership on management accounting systems.

The privatization of the tobacco monopoly brought about the use of cost accounting for inventory valuation, decision-making, and performance evaluation purposes. Privatization meant the emergence of a new philosophy with regard to the objectives of the firm. A focus on efficiency and profitability replaced the former emphasis on legality and fraud prevention. In this paper, it is argued that these new concerns, and the subsequent change in the management accounting system, were shaped by the contracts regulating the CAT's activities that, in fact, reflected the influence of the two main principals, the state and the Bank of Spain.

The influence of the Bank of Spain is evident in both the foundation of the CAT and its further development. The Company's Act ensured the Bank's domination of the board of directors and the shareholder's annual meeting in spite of its

stake of only 20% of the shares. The Bank designed a highly centralized organization in which managers acted as a mere link between the board and the factories. Two reasons explain the Bank's incentive to exert direct control. On the one hand, the Bank was linked to the tobacco industry by the tacit commitment it held from the state. Any change in its status as the major shareholder could affect its relationship with the government and would damage the Bank's other business. On the other hand, the Bank itself was an agent and, as such, it tried to protect the interests of its shareholders. These were not always aligned with the CAT's shareholders' interests.³

Since granting the monopoly and retaining ownership of long-term assets, the state became the CAT's other major principal, as their relationship was regulated by the leasing contract. The government's attitude towards the tobacco monopoly experienced a major shift. This change is to be seen both with the sudden concern about profitability and efficiency and in the state's determination to discipline the CAT's management [Aharoni, 2000] over the role of accounting information. Several factors may explain the state's focus on profitability. First, and most obviously, the rental depended on net income. Second, information asymmetry was high since the governmental delegate had no seat on the board of directors. Although the state's representative was given broad powers in the management of the industry, it was accounting information that became the basic control mechanism. Third, the leasing contract forced the CAT to keep "proper and regular" accounting information with the delegate controlling compliance with this requirement. Finally, the financial pressure and the strategic constraints imposed by the leasing contract resulted in cost-saving strategies as the clearest way to improve performance [Uttley and Hooper, 1993].

To sum up, changes in the ownership structure not only brought about new incentives to control, but a fundamental shift in the object of control, with profitability and efficiency now privileged. These new economic concerns induced demands

³ Evidence of the existence of conflicts of interest between the CAT and the Bank of Spain is ample. For instance, the Bank impeded any issue of shares since it obtained significant gains on its loans to the CAT [Comín and Martín Aceña, 1999]. Likewise, in the discussions preceding the reform of the Company Act in 1894, minority shareholders contested the dominance of the Bank in the management of the CAT and its position as the exclusive financial institution. However, this situation remained unchanged [AHBE, legajo 789].

for accounting information and a system redesign to generate the data required. While accounting systems both before and after privatization enabled coordination of flows between operating units, the new system was implemented both for decision-making and performance-evaluation purposes. Simplification, uniformity, and the integration of cost calculations in the main accounting systems were the major features of the new system, facilitating its implementation and enhancing compliance with accounting reporting norms.

Efficient decision making required the provision of timely, uniform, and regular information. These were basic prerequisites for the quality statistical information considered essential for decision making [Delgado, 1896]. Simplification of the system allowed a greater regularity and timeliness without increasing agency costs. Double-entry bookkeeping was critical in achieving this simplification and encouraged the required degree of control over activities. Uniformity of accounting records between factories permitted the board of directors to centralize decision making. Finally, the integration of cost calculations in the general accounting system of the CAT increased compliance with cost accounting duties, allowing performance appraisal and control over factory managers.

The evidence presented is consistent with recent literature on privatization which highlights the need to focus on the role of government and the capital structure in contexts where external control mechanisms are not well-developed [Dharwadkar, 2000; Ramamurti, 2000; Toninelli, 2000]. Future, comparative work on the design and development of management systems in regulated and emerging economies will certainly enhance our understanding of the underpinnings of such systems.

CONCLUSIONS

Accounting historians have drawn on two main theoretical perspectives to explain the motives for the emergence of cost accounting practices and understanding its implications. The economic rationalists and Foucauldian perspectives both locate the emergence of administrative coordination in the U.K. and U.S. during the late 18th and early 19th centuries. The major points of disagreement are to be found in (i) the concept of modern managerial control, (ii) the motives behind its emergence, and (iii) the implications of such practices.

Economic rationalists have argued that cost accounting emerged in response to new demands for managerial control.

They suggest that factors such as size and complexity, competitive pressures, technology, and/or the need for coordination are the prime engines for accounting change. This perspective takes an implicit economic rationale that has been criticized for taking a functionalist view of organizations, neglecting other wider social, political, and cultural factors.

Foucauldian scholars have provided an alternative explanation for the emergence of modern managerial control. The translation of writing, examining and grading practices into the economic sphere [Hoskin and Macve, 2000] is considered to represent the major discontinuity in the history of accounting in the last three centuries. The application of these technologies to monitor worker performance allowed the implementation of a new disciplinary regime that enabled hierarchical surveillance [Hoskin and Macve, 1994]. An important aspect of this new disciplinary regime was the development of standards of work performance. This managerialism was exercised grammato-centrally and allowed the implementation of a positive system of power [Hoskin and Macve, 2000].

There have been various challenges to both perspectives [e.g., Hoskin and Macve, 2000; Boyns and Edwards, 1996, 2000]. However, for the purposes of this paper, one aspect is especially relevant. The main emphasis of the Foucauldian perspective has been to pinpoint the genesis of managerialism, identifying the moment and place when modern managerial control can be said to have emerged. This perspective offers limited assistance in explaining localized cases of accounting change, such as the one presented in this paper, where no changes in labor control were found. Economic perspectives, by contrast, offer a more general framework with which to address the study of accounting change at any level. This paper has tended toward the economic rationalist perspective.

It has been shown that the main characteristics of the industry remained stable. Factors such as size and complexity, technology, competitive pressure, and the need for coordination were not subject to major upheaval. In spite of this stability, the accounting system underwent significant change shaped by the shift in ownership. Privatization gave rise to new agency relationships; the contracts regulating them provided new incentives to control and, hence, new demands for accounting information. The evidence provided in this paper shows how cost accounting contributed to the monitoring of managerial performance. However, while the use of cost accounting for decision making (e.g., product mix or labor cost reduction) appeared immediately after

privatization, it was in 1891 that its use for managerial control was explicitly stated as an objective. This is consistent with Chandler's [1977] analysis of the U.S. managerial revolution where, as Boyns and Edwards [1996: p. 41] have highlighted, "information originally conceived to enable efficient coordination was recognized as having potential to assess managerial performance." When comparing Anglo-Saxon and non-Anglo-Saxon contexts, although there may be similarities in the nature and direction of accounting change, significant differences may be found in the factors giving rise to such changes.

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THE PERSONAL ACCOUNT BOOKS OF SIR WALTER SCOTT

Abstract: This study examines the personal account books of Sir Walter Scott, the world-renowned Scottish author, a topic not explored before by Scott scholars or accounting historians. It sets the account books in the context of Scott's accounting education and experience, which took place at the time of the Scottish Enlightenment, an 18th century movement which saw a great flowering of writings on accountancy in Scotland as well as considerable progress in the arts and sciences. The style, layout and content of the account books is also studied from the point of view of elucidating Scott's domestic financial arrangements and expenditure patterns. These are seen as confirming the insights of Vickery [1998], who posits a liberated role for women such as Mrs Scott in 'genteel' households, which Scott's undoubtedly was. The study also establishes that Scott's personal expenditures, and indeed his accounting practices, otherwise conformed to the general patriarchal pattern identified by Davidoff and Hall [1987]. The final part of the article uses what has been discovered about Scott's personal accounting to revisit the question of his financial imprudence (or otherwise) in business. It concludes that Scott's risk-taking in business was not unreasonable, and was informed by his bookkeeping knowledge and practices.

INTRODUCTION

In explaining the development of accountancy in Scotland before the emergence of the chartered professional bodies in the 1850s, Richard Brown [1905, p. 197] quoted a letter written in 1820 by Sir Walter Scott to his brother Thomas. Sir Walter

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suggested a career in accountancy for his nephew and namesake, provided he was “steady, cautious, fond of a sedentary life and quiet pursuits, and at the same time a proficient in arithmetic”. Accountancy was a “highly respectable” branch “of our legal practice” and offered an opportunity where he could “ultimately succeed”. This authoritative evidence on the social status and legal bias of Scottish accountancy, as it then was, is very well known. In contrast, it is not at all appreciated that for a number of years, Sir Walter kept his own account books to record and quantify his domestic finances, and that some of these still survive and themselves have something to say about the role of accounting in Scottish life.

The purpose of this article is to examine Scott’s account books in detail and to look at how he maintained and used them. It will set this against the backdrop of Scott’s accountancy training and experience, locating this dimension of his education in a general Scottish context and thus adding to what is already known about the spread and sophistication of accountancy in Scotland at the time of the Scottish Enlightenment. The opportunity will also be taken to look at the degree to which Scott, on the evidence of his personal account books, may himself be considered to portray Enlightenment characteristics. The study will also provide some insights from the Scott household into the place of accounting in Scottish domestic economy, an area concerning which very little has been written to date. In particular, it will shed light on the operation of a ‘genteel’ household in terms of the relations between a husband and wife and their expenditure patterns. Last but not least, the article will utilize the evidence provided by Scott’s personal account books to explore his attitude to money, a topic which has engendered controversy from Scott’s lifetime onwards.

The study will thus contribute to a growing literature on the use of accounting by literary figures or in their works. Recent studies on Freytag [Maltby, 1997], Byron [Moore, 1974] and Pepys [Boys, 1995] have proved most revealing in an unusual range of ways, as does that which follows.

SCOTT AND HIS ACHIEVEMENT

While the novels of Sir Walter Scott remain in print and many are readily available in paperback form, they do not enjoy the massive readership they once did. It is no exaggeration to say that, in his day, he was “the world’s most popular novelist” [Partington, 1930, p. 351]. Hayden [1970, p. 1] states that “no

writer before him had ever been so well received by his contemporaries - ever". His life and writings have themselves engendered a huge secondary literature, drawing on the considerable volume of personal papers that still survive.

Scott, born in 1771, was educated at the Royal High School of Edinburgh and Edinburgh University, where he studied law. He became a member of the Scottish Bar in 1792. At the end of December 1799 he became Sheriff of Selkirkshire, a position he held all his life. In 1806 he was appointed a Clerk in the senior Scottish civil court, the Court of Session, a position he only gave up in 1830, two years before his death.¹

Scott's first literary successes were in the field of poetry, and works such as *The Lay of the Last Minstrel*, *Marmion* or *Lady of the Lake* soon established his reputation, selling in substantial numbers for many years. With the publication of *Waverley*, the first of his 27 novels, in 1814, his literary career took a quantum leap forward. The novels were henceforth published at the rate of about two per annum, selling out all over Britain as soon as they became available and running to edition after edition throughout the 19th century and beyond [Scott, 1981b].

The novels were translated into French within the year of publication and were very soon available in Italian, Greek, Portuguese, German and even Polish. They were immensely popular not only in Europe, but also sold plentifully in the New World. Scott was regarded as a "genius" by Goethe, and held in the highest esteem by fellow writers such as Byron, Wordsworth, Heine, Pushkin, Balzac, Hugo, Sainte-Beuve, Washington Irving and James Fenimore Cooper, each of whose writings were to some degree indebted to him. Scott's genre was the historical novel, a form he influenced universally and irrevocably. Prior to 1820, his novels were set in Scotland, *Rob Roy* or *The Heart of Midlothian* being well known examples. Afterwards, the majority were set in England (for instance *Kenilworth* or *Ivanhoe*). A few late novels were set abroad.

Although most of the novels were published anonymously in Britain, as was the contemporary fashion, the author was

¹ Scott was one of six Principal Clerks to the Court. Anderson [1972, pp.xxi-xxii] has noted that this was a "position roughly analagous to that of a Town Clerk or a Clerk of Parliament". The Clerks "had charge of the papers connected with a case, and were responsible for ensuring that correct legal procedures were followed". At the end of a case they had to reduce the judge's decision as delivered from the Bench to a concise written decree or "interlocutor", a task which required considerable skill.

named on foreign translations and his identity was widely suspected almost from the first. By 1818, the year he accepted a baronetcy, Scott was a national hero in Scotland, being seen as a successor to Robert Burns in stirring up a sense of patriotism through his writing and publicizing Scots and Scotland abroad. His novels inspired many operas, one such being Verdi's *Lucia de Lammermoor*. Mark Twain, who did not like his work, paid an indirect tribute to his influence. He blamed the American Civil War on the Romantic atmosphere of Scott's novels, which Twain held had affected the aspirations of the landowners of the Deep South [Jeffares, 1969, p. 18].

In financial terms, the success of the novels made Scott an extremely rich man. Already by the time of their publication more than comfortably off from his twin legal appointments and income from his poetry, the novels brought him an extra £10,000 or more per year, at a time when his £300 sheriff's salary would alone have been sufficient for "a life of gentlemanly ease" [Scott, 1981b, p. ix].

By the beginning of 1826, in spite of his unprecedented success, Scott's investments in Ballantynes, an Edinburgh publishing and printing firm, had caused him deep financial embarrassment. The firm collapsed with debts of £130,000. By this time Scott was the only partner with a financial interest, and was forced to enter a composition with his creditors which allowed him to continue to occupy his country seat, Abbotsford, the intention being that he should repay his debts through his writing, which he was determined to do as a matter of honor. The effort worsened his already failing health, but the debts were paid off not long after his death in 1832 [Anderson, 1971].

SCOTT'S ACCOUNTANCY EDUCATION AND THE SCOTTISH ENLIGHTENMENT

Double entry accounting was widespread in Scotland in the 18th century. The Darien Company and the Bank of Scotland had double entry books of account by the last decade of the 17th century. George Watson, trained in accountancy in Holland, set up the latter's book keeping system. He then went on to found George Watson's Hospital, a famous Edinburgh school, where he ensured that double-entry accounting was thenceforth taught [Brown, 1905, pp. 181-202].²

² George Watson's College still exists today as part of a group of private schools run by the Merchants Company of Edinburgh.

For its size, Scotland produced a relatively large number of texts on bookkeeping and accountancy in the 18th century. Preceding these is Collinson's *Idea Rationara, or the Perfect Accountant*, published in Edinburgh in 1683. Richard Brown's [1905] chronological bibliography of pre-1800 books on bookkeeping lists Scots works by Macgie [1715], Malcolm [1718], Mair [two works in 1736 and 1768, with subsequent editions], Stevenson [1756], Gordon [works in 1765 and 1766, with later editions], Fisher [1772, with 30 further editions], Perry [1774 and later editions], Hamilton [1777 and later editions], Scruton [1777] and Buchanan [1798]. The last of these, *The Writing-master and Accountant's Assistant*, linked writing and accounting as cognate skills, while the works by Malcolm and Perry linked arithmetic and accountancy [Brown, 1905, pp. 343-360]. Mephram [1994] has highlighted the fact that many of these authors were involved in teaching. Malcolm took up a teaching post in Aberdeen in 1730, before moving to New York. John Mair taught bookkeeping and other subjects at Ayr Grammar School, eventually becoming rector and introducing a business-related curriculum. He became rector at a newly founded Academy in Perth in 1761. William Gordon taught at Fochabers and later co-founded and ran a Mercantile Academy in Glasgow (with Scruton) moving in 1783 to become Master of the Mercantile Academy in Edinburgh. In 1793, the year of his death, Gordon was in partnership with George Paton at the Commercial Academy, South Bridge, Edinburgh. Robert Hamilton succeeded John Mair at the Perth Academy in 1769, later moving to university posts in natural philosophy and mathematics.

Mephram has, with justification, claimed that the profusion of Scottish publications on accounting at this time may be validly claimed as part of the achievement of the Scottish Enlightenment [Mephram, 1988, 1994]. This great 18th century movement in the intellectual life of Scotland, linked to the contemporaneous European Enlightenment, was manifested in internationally celebrated achievements in philosophy by David Hume, the political economy of Adam Smith, various writings on the law and many other developments in the arts and sciences.

Towards the end of the 18th century, the city directories of Edinburgh and Glasgow were listing the addresses of accountants. In 1773, seven were recorded in Edinburgh, followed by 14 in 1774. Six Glasgow accountants were listed in 1783. By 1807, the number had risen to ten. Accountancy practitioners were sometimes also lawyers, such as David Russell [d. 1782], or

Alexander Keith, Writer to the Signet. Walker [1991] has drawn attention to the high status enjoyed by the legal profession at this time and its implications for the status of accountants. The connections between the law and accountancy also extended to the work carried out by accountants. The legal processes of sequestration, ranking of creditors in bankruptcy, multiple-poidings, trusts and judicial factories, arbitrations and legal disputes involving the accountability of one party to another, all called for the preparation of accounts as evidence to courts or were the sources of investigations by accountants [Brown, 1905, pp. 181–202; Walker, 1993; Kedslie, 1990].

It was into this national tradition of accounting and accounting education that Walter Scott entered while at the Royal High School of Edinburgh. This famous school was biased towards the teaching of the classics, but writing and bookkeeping were also taught there during Scott's pupilage. John Maclure taught both these subjects until 1777 and was succeeded by Edmund Butterworth from 1780 onwards. Scott was taught by Butterworth and must have been aware of Maclure while at the Royal High School, which he attended from 1779 to 1783. While there, he was also being taught at the small, private writing and arithmetic school of John Morton, of Cant's Close, Edinburgh, where some bookkeeping may also have been covered [Lockhart, 1902, Vol.1, p. 10]. Unfortunately, no trace of the Royal High School's curriculum for writing and bookkeeping at the precise time of Scott's pupilage survives. Happily, many clues are given in Steven's *History of the Royal High School of Edinburgh* [1849]. As early as 1593, a William Murdo or Murdoch had been appointed as the school's first teacher of writing and bookkeeping. Scott's training in these subjects was therefore part of a long tradition. Steven's book describes the bookkeeping curriculum from 1820 onwards. If this reflects that of the 1780s, as seems likely, Scott would have been shown how to draw bills of exchange, state accounts and keep a "balanced and well written set of accounts" [Steven, 1849, pp. 119, 176, 184]. Indeed the new school building by the architect Alexander Laing, in which Scott was a pupil, located the study of writing and bookkeeping prominently in a room to the left of the hall [Steven, 1849, p. 124].

On 18 January 1791, while at Edinburgh University, Scott became a member of the Speculative Society, a debating club, going on to become its treasurer. Its accounts do not survive, but Lockhart observes that "the minutes kept in his handwriting attest the strict regularity of his attention to the small affairs,

literary and financial, of the club" [Clark, 1969, p. 206]. Scott had to deal with protested bills and promissory notes as well as preparing accounts, matters which would also concern him during the period he spent training in his father's law office.

Here he would no doubt gain experience of completing and sending out the "modest" accounts his father charged for his services, as well as learning how the practice's own accounts were kept [Clark, 1969, p. 154]. At this point, too, his knowledge of the use and role of accounting in legal processes and in the courts would have grown. This is borne out by a note at the end of *Redgauntlet*, a semi-autobiographical novel of 1824, in which Scott admits to having modeled his eccentric character, Peter Peebles, on a real person of the same name who "frequented the courts of justice" about 1792. Scott had at one point represented him in a type of case given to young barristers as an "essay piece", because it was so voluminous and had dragged on so long.

In *Redgauntlet*, Peebles has been defrauded by a business partner over a 12-year period. The account of the court case involves Peebles' counsel, Alan Fairford (clearly modeled on Scott himself) plunging:

... boldly into the mare magnum of accounts between the parties ... [and pursuing] ... each false statement from the waste-book to the day-book, from the day-book to the bill-book, from the bill-book to the ledger ... and availing himself ... of his father's previous labours, and his own knowledge of accounts, in which he had been sedulously trained, he laid before the court a clear and intelligible statement of the affairs of the copartnery [Scott, 1912, p. 186].

The precision of the passage bespeaks a close, first hand knowledge of accounting born of practical experience.

When Scott took up the Sherifffdom of Selkirkshire in late 1799, he was immediately involved in small lawsuits where matters of accounting and finance called for his attention. His judgments have been collected, analyzed and admired by Chisholm, who was himself a distinguished judge [1918]. Scott's very first case, in 1800, involved a question of unpaid business accounts, connected to the exercise of agency. Cases in 1801 and 1803 involved claims for unpaid wages. In 1804, a more substantial case involved a claim for unpaid agricultural rent, a counter-claim that the terms of the lease had not been met and an instruction by the Sheriff that the defaulting tenant should supply a "rectified state of his claims of compensation, instructing

the same by vouchers". The tenant did not provide this, and a warrant was granted for a roup (sale) of his assets. An appeal was made to the Court of Session, which referred the matter back to the Sheriff Court, where Scott reviewed the evidence and made deductions for work done and expenses incurred from the rents due, based on vouchers and other financial details. In 1805, an action of "count and reckoning" required the production of financial evidence in relation to a co-partnery in a Selkirk hosiery business in order to determine monies due to an absentee investor. Throughout the rest of his career as Sheriff, which admittedly only involved an average of four fairly minor cases per year, Sir Walter Scott was frequently exposed to questions of accounting and finance [Chisholm, 1918, *passim*]. On taking up the position of Clerk to the Court of Session in 1806, Scott would have officiated at much longer cases involving accounting, but these came later than the majority of his surviving personal account books and cannot have informed his thinking as he drew them up and used them.

Scott's personal training in accountancy and his exposure to it in different areas of his life, outlined above, provides rich empirical evidence regarding the widespread use of sophisticated accounting amongst the business and professional classes of Scottish society towards the end of the Enlightenment period. Taken together with the profusion of books in print and educational opportunities relating to accounting that occurred at the time, it adds weight to Mephram's contention that accountancy had indeed made considerable progress in Scotland by the time of the Enlightenment.

THE BOOKS OF ACCOUNT

Five books of account belonging to Scott have survived (See Table 1). Four of these might be described as Cash Books and another as an Analysis Book.

TABLE 1
Scott's Account Books

Dates of Entries	Size	Type	Pages Completed	NLS Reference Number
Jan 1796 - Jan 1799	8 x 5¼ inches	Cash Book	10	MS 1740
Jan 1799 - Dec 1802	7½ x 5 inches	Cash Book	114	MS 1742
Jan 1799 - Dec 1801	8¼ x 11⅔ inches	Analysis Book	24	MS 1741
Jan 1803 - Aug 1807	6¼ x 8 inches	Cash Book	87	MS 1743
May 1823 - Jun 1826	6¼ x 8 inches	Cash Book	120	MS 1744

The earliest of the books is a small volume entitled "Memorandum Book 1796". Inside this, cash receipts have been recorded on the left hand page and payments on the right hand page, on "Cash Book" linings added to the blank pages by Scott. The earlier entries in the book date from the 1796/1797 period. The left-hand (income) page is headed "1797", but the expenditure page is dated "1796". The next pair of pages is dated "1796", which suggests that the earlier mention of 1797 was a mistake, indeed pages for this year appear in sequence. The 1798 pages are headed up "Cr." and "Dr." respectively, contrary to the conventional business practice of showing receipts as 'Dr' followed by 'Cr'. While this is of no moment in the recording of personal finances, it is unlikely to have been an error. Scott appears to be taking the view that money received is credited to himself, and that money spent is a debit. In this he follows standard banking practice.

In the "Memorandum Book 1796", Scott institutes a procedure he continues in the later books: the receipts and payments columns are totaled when one of these (invariably payments) has been filled up, and a balance of funds in hand is struck at the foot of the page. A diagonal ruling is drawn through the unused part of the receipts page. The next page is opened up with the entry "By Cash in Purse". For some reason, Scott has put a large diagonal cross through the receipts and payments pages for 1796, a practice he does not continue, perhaps to indicate that he regards the finances for this period as concluded. Only five double pages of this first book are taken up, and it finishes with some details from January 1799. Here then is a man who understands bookkeeping: the manual cash rulings, the diagonal linings, the balancing of pages, the sophisticated use of debit and credit. What is his purpose? It seems clear that he simply wants to keep track of his expenditure and to keep a handy record of payments. This book and its successors are functional books, not maintained for the pleasure of writing. While they are neat and reasonably legible, no attempt has been made to make them masterpieces of calligraphy (see Figure 1).

This first book covers a transitional phase in Scott's life. Having been in practice as an advocate (a Scottish barrister) since 1792, Scott remained a bachelor until late 1797 when he married Charlotte Carpenter, after a brief courtship. Earlier that year, his hopes of marrying his long-term love Williamina Belsches, were dashed when she wed William Forbes, the wealthy private banker and a social acquaintance of Scott's

[Oman, 1973]. Expenses from 1796 included postage, the repayment of a loan of five shillings to his mother and a loss of two shillings and sixpence at cards, a favorite pastime in Edinburgh society, as well as sums paid to “stablers”.³ A receipt of five pounds from his father may have been a gift. Sums paid for gloves, shoes or coach hire confirm details of a bachelor existence in Edinburgh and occasionally at the family premises in the Scottish Borders. The pages for 1798 reveal far greater levels of expenditure commensurate with Scott’s marital status: payments to Mrs Scott begin to feature, one of ten pounds and another of one guinea. Having moved in the spring of 1798 from temporary accommodation in a New Town flat at 50 George Street, Edinburgh to another nearby at 10 South Castle Street, Scott and his new wife took occupancy of a Romantic, thatched cottage orné at Lasswade near Edinburgh later that year. It was rented from the Clerks of Eldin and cost £30 per annum, as the cash books reveal. Lasswade was the family home whenever Scott’s duties allowed him to leave the city. Payment in 1798 to a mason for “chimneys” and the substantial sum of £6-15-6 for furniture clearly relate to Lasswade. Payments for the purchase of “German books” adumbrate Scott’s published translations of German writers from about this period. An account paid to Hutchison and Oliphant for liquors reflects Scott’s love of entertaining in both his homes and his early penchant for social drinking.

The second surviving account book is a crown octavo (7 inches by 5 inches) cash book, single-cash lined in red ink by Scott, as previously, and carrying on the same recording and balancing practices as before. From this the progress of Scott’s married life is evident. A wine bill of £31 -11/-, due to Johnstone, is recorded as paid in January 1799. Payments to Mrs Scott of four, five and six guineas at more or less weekly intervals make it clear that she arranged the household expenditure. A “house to Camp”, Scott’s much-loved and intelligent dog, was pur-

³ Amounts of money in Sterling were in Scott’s day (and until fairly recently) expressed in pounds, shillings and pence. There were twelve pence to a shilling and twenty shillings to a pound. Large sums of pounds, shillings and pence are shown in this article thus: £23 - 4 - 5.

Sometimes amounts were expressed in guineas, a guinea being one pound and one shilling.

Based on manual wage rates in Scott’s day, as compared with the present, monetary values in Scott’s books would have to be uplifted by about 150-200 times to give current income comparisons.

chased for six shillings, as Figure 2 shows.⁴ Thirteen shillings and sixpence was paid for building a pigeon loft at the “cottage”, where slabbing was also carried out. Small payments for losses at cards, the upkeep of horses and harness and the purchase of stockings reveal that Scott continued to make personal expenditure as well as remaining in overall charge of finances. A number of payments were made by Scott on behalf of the Edinburgh Light Dragoons, the volunteer cavalry corps he had joined in 1797 and for which he acted as paymaster. One of these is for £23 - 4 - 5, for the “Keep of Horses”. A number of payments for the “ELD” are recorded as received by Scott, making it clear that he paid bills for the corps personally and received reimbursement.

The cash book records that Scott was now carrying forward aggregate cash receipts and payments, not just for the purpose of balancing each double page, but in order to record totals for the full calendar year. It reveals that for 1799, £1,441 had been spent, and that “cash in purse” was four pounds nine shillings at the year end. The figures for 1802 were £1,339-17-6 and ten shillings and sixpence respectively. Among the expenses at the end of 1802 were small sums paid for “prints of horsemen” and five guineas spent on “Baby’s clothes”. These were purchased in anticipation of the birth of his second daughter and fourth and last child, Anne, born early in 1803. At the end of 1801, the family had shifted their Edinburgh quarters from 10 South Castle Street to a fine town house of three stories and an attic at 39 South Castle Street.

Expenditure figures of the above magnitude reveal that the Scotts were enjoying a very opulent lifestyle and, indeed, suggest they were doing so by drawing down their savings to support their spending. Some pages at the rear of the cash book record payments into Scott’s bank account with Sir William Forbes (his former rival in love), as well as payments out of the account. For the year 1799, £931 in total was paid into the account, and £693 was withdrawn. In 1800 £593 was paid into Forbes bank and £803 withdrawn. For 1799 and 1800, the balance seldom exceeded £200 and was often much lower.

All the amounts withdrawn from the bank account are shown as receipts in the cash book, revealing Scott’s familiarity

⁴ Scott’s Analysis Book for the same year reveals that the “house to Camp” was in fact a dog basket. It seems likely that Scott would enjoy the play on words here, which was perhaps intended to signify the improvement in his pet’s living conditions as much as to describe his expenditure.

with double entry. A note at the very back of the cash book records that three certificates for £611, £190 and £403 were drawn from "Messrs Drummonds", presumably the London-based bank of that name, in 1799. It seems likely that some of these funds were entered into the Forbes account, but the absence of narrative means that this cannot be proved.

As well as withdrawals from the Forbes bank account being entered into the first two cash books, many "fees", typically of one, two or three guineas, are recorded as received every few days. These were payments to Scott for his services as an advocate, and together with the withdrawals from Forbes, are the main source of income until 1800, the year that Scott was appointed as Sheriff of Selkirkshire, at a salary of £300 per annum. The second cash book records the receipt of just over £56, being his first quarterly salary payment for his new post, after deductions, and that the new Sheriff paid 14 shillings and sixpence for a map of Selkirkshire on 4 February 1800. Scott purchased a new pair of "gallowses" (braces) for six shillings on 3 June 1800.⁵ Rather touchingly, the payment of two shillings for a "toy" for his daughter Sophia is recorded on 1 January 1802.

As was indicated earlier, the cash books do not provide enough details to allow the reader to see the precise sources of all of Scott's income and funds flows in detail. They are, however, consistent with what is known about his finances during the early years of his marriage: advocacy fees of a few hundred pounds a year, a Sheriff's salary of £300 per annum and a wife with an annual allowance of £400 from a brother in India. These and the drawing down of savings can easily account for the heavy expenditure the family made.

This was certainly something that Scott sought to keep under review, if not actually control, as is apparent from the third of his surviving books, which covers the period January 1799 - December 1801. It represents a major extension to his system, and consistent with its function, is larger than the Cash Books, being 8¼ by 11½ inches. It is illustrated in Figure 2.

⁵ The Scots word for braces, straps supporting trousers from the shoulders, is sometimes spelt 'galluses' and is a corruption of the term 'gallows', the apparatus for capital punishment by hanging. The amusing parallel between the hanging of trousers and the hanging of criminals inherent in the Scots term would not be lost on Scott, who loved and sought to perpetuate his native tongue.

FIGURE 2
Part of Scott's Analysed Cash Book for 1799

Statement for 1799 -		Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
1	Money brought over													
2	"													
3	"													
4	"													
5	"													
6	"													
7	"													
8	"													
9	"													
10	"													
11	"													
12	"													
13	"													
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92	"													
93	"													
94	"													
95	"													
96	"													
97	"													
98	"													
99	"													
100	"													

Here Scott has ruled the plain pages out to produce an Analyzed Cash Book. On the left-hand page, the Disbursements already recorded in the Cash Books are described in chronological order and the amount of each item is given in total, after which it is allocated to one or more of nine columns, which are spread over the right-hand page as follows:

Household Expenses
House Rent and Servants' Wages
Public Burdens & c
Liquors
Furniture, Books, Stationary [sic] & c
Mrs Scott's Personal Expenses
Personal Expenses, Keep of Horse & c
Public Places, Travelling Coach Hire & c
Incidents.

Scott is not consistent about the order of these headings, which were used for January 1799. In December 1799, a slightly different order was followed. The descriptions also changed. "Furniture, Books, Stationary &c" was changed to "Country Expenses, Furniture, Books, etc", and "Mrs Scott's Personal Expenses" becomes "Personal Expenses Mrs Scott & Child."⁶ Total expenses for 1799, as analyzed by Scott, (with percentages calculated by the authors) are given below:

TABLE 2
Scott's Expenses for 1799

	£	% of Total
Household Expenses	191 - 13 - 6	19.8
House Rent & Servants' Wages	93 - 13 -	9.7
Public Burdens	29 - / -	3.0
Country Expenses, Furniture		
Books, &c	197 - 16 - 6	20.5
Personal Expenses, Mrs Scott & child.	91 - 2 - 6	9.4
Personal Expenses	104 - 10 -	10.8
Travelling Expenses	66 - 7 - 6	6.9
Wine & Liquors	181 - 13 - 6	18.8
Incidents	<u>10 - 2 - 6</u>	<u>1.1</u>
	<u>965 - 19 - 0</u>	<u>100.0</u>

There are two surprising elements to these figures. The first is the large "Wine and Liquors" total. Clearly, Scott is building up a cellar, probably in each of his two residences. Towards the

⁶ By this time the Scotts had "children", so "child." must be an abbreviation.

rear of his earliest Cash Book, Scott listed "Port, Sherry, Frontenac, Claret, Rum, Gin, Brandy, Whisky" sideways along a page, as if he intended to record his stock of each, but did not do so. The second surprising element is the total of £965 - 19/-, which does not square with the cash book total of £1441 - 2/-. A simple reconciliation reveals the explanation - that Scott has omitted his payments on behalf of the Edinburgh Light Dragoons from his analysis book. At least some of this expense was recovered, as was indicated above.

As can be seen, the maintenance of this account book was quite onerous, and Scott let it drop after 1801. The presence of unused, lined pages beyond this point reveals his intention to continue its use, but it can be assumed with reasonable certainty that his growing workload as an advocate, Sheriff and author soon brought about its discontinuation.

A fourth surviving book, a cash book once more, survives for the 1803-1807 period. This book is no different in concept or execution to its predecessor cash books, but contains some interesting details reflecting Scott's altering circumstances. In 1803, for instance, £35 is recorded as paid to Scott as profits from the first edition of the *Minstrelsy of the Scottish Border*, as is £114 from Longman for the "price" of *Border Ballads*. A £30 fee for an article in the *Edinburgh Review* is also recorded that year. These newer sources of income begin to supplement the existing ones, although other more mysterious receipts, parts of bills of exchange and the like with cryptic and semi-legible notes alongside, which featured in the books for some time and still put in an occasional appearance. In 1805, £200 (out of £500) received from the sale of "Rosebank", a property belonging to his late uncle, was used for household expenses. Scott's total inheritance from this source was £5,600, £5,000 for the property and £600 from the residue of the estate, but little of this made its way into the household books. The Cash Book records that £1,500 of it was "advanced" to James Ballantyne, printers in 1805, providing capital for the co-partnery that would eventually bring Scott down in 1826. An entry of 1806 reveals that a "patrimony", or legacy from his father, was also credited, and that £1,000 was received from this source, £900 of it passing immediately to "Wm. Riddell", apparently in repayment of a loan.

The Cash Book reveals, therefore, an already well-off family receiving substantial bequests. It is clear that parts of these have been anticipated and spent in advance, while investments are being made with other parts. The acquisition of a "post chaise" for £80 in 1805 confirms a picture of growing affluence, as does

a reference in 1806 "Sold £1700 stock 3% Consols" for £1007 - 5/-. £950 of this is again invested in Ballantynes.

Other interesting developments around this time include the giving up of the Lasswade cottage for "Ashestiel" in 1804. Ashestiel was a substantial farm property in the borders rented for seven years from an absentee relative, and was taken up so that the Sheriff might live in his constituency. In 1804, Scott began a separate section of his Cash Book for his "Farm Account" but this was soon abandoned, such that only 15 pages were ever written up. These record small sums of income from the sale of coal and the occasional animal. Expenses include payments for hay and oats for the cattle and small amounts such as the one shilling and sixpence expended as candidly outlined in Scott's description: "Blackberry Cow Bull'd". The income and expenditure totals for the Farm Account pages seldom exceed £20, and it may be assumed that sums of this size turned out not to be material enough to justify separate accounting.

Apart from the abortive Farm Account section of this Cash Book, the only other feature of note is the use of the category "lost in accounting" to enable Scott to balance cash in hand. For the year 1806, an entry of two pounds and two shillings was required for this purpose.

The final extant account book belonging to Scott is for a much later period, May 1823 to June 1826. It seems likely that there was a whole series of books for the intervening years which have been lost. Lockhart, Scott's son-in-law and the chief authority on him, observed that Scott kept account books all his life [Lockhart, 1902] and in July 1819, Scott wrote to his own son as follows: "I beg you will keep an acct. of money received and paid. Buy a little book ruled for the purpose for pounds, shillings and pence and keep an account of cash received and expended. The balance ought to be cash in purse if the book is regularly kept" [quoted in Quayle, 1968, p. 138]. It is unlikely that Scott would have made such a recommendation if he himself had discontinued the practice he advocated.

The last surviving account book reflects the vast change that had taken place in Scott's life since 1806/7. He was now an author of world renown, a baronet, the friend of kings and princes and since 1821, Laird of Abbotsford, his new country seat in the Borders. What survives for 1823-1826 is a book in which the bare essentials of business life are recorded in a very incomplete and cryptic way, but one which would be understood by Scott. For 1823, two entries on the receipts side appear to record income of £8,910 and £9,000. To the side of these

figures are some illegible abbreviations written against amounts of £1,000-£3,000 which are added to produce these two totals. Taken together they indicate a huge literary income for the year of £17,910.

On the expenditure side, large payments, typically from £150 to £790, are made to "Curries", a London bank, "Constable" (one of Scott's publishers) or "J.B." (James Ballantyne, the printing firm in which he was a partner). The pages are not totaled. It is clear by this time that the cash book has taken on more of the character of an "aide memoire" for major business transactions than that of a personal account book.

The catastrophic, UK wide financial crisis of 1825 brought down some 60 banks and a vast number of business houses. On 14 January 1826, Constable's London agents, Hurst Robinson & Coy, were forced to stop payment. Archibald Constable and Company and James Ballantyne and Company, linked to them and to each other by debts secured through bills of exchange, were also brought down through their inability to pay. As the sole financing partner in Ballantynes by this time, Scott was liable for huge debts and in due course entered into a trust deed for his creditors. It is no surprise then, that the final fragmentary entries in Scott's last account book are for June 1826, after which point his affairs are administered by trustees. The final entries consist of a payment of £750 on 3 June with an illegible narrative alongside, followed by one of £667 to Hunt and Company, dated 7 June. No personal books survive beyond this point, and it is unlikely, given the circumstances, that any were ever kept again.

Scott did, however, keep a personal journal from late 1825 onwards, intended for publication, and in this he from time to time reconciled his income, expenditure and cash in hand balance as he had always done [Anderson, 1972]. Over 100 instances of account-keeping of this kind may be found between 1825 and 1830, ranging from very brief notes to fuller accounts. On Thursday 5 July 1827, for example, a note appears as follows:

In purse	£50
Anne (Daughter)	<u>20</u>
In purse	30
Post horses	<u>2</u>
	<u>28</u>

On Monday 29 October, Scott begins "I may as well square my accounts", producing the undernoted:

By cash in purse	£ 43 - 0 - 0	
To subscription to Canning Monument	5 - 0 - 0	
To Bogie [Scott's gardener]	20 - 0 - 0	
Subscription to Forest Club	5 - 0 - 0	
Travelling expences [sic]	<u>12 - 0 - 0</u>	
		£ 42 - 0 - 0
		£1 - 0 - 0
Cash for reviewing from Lockhart		100 - 0 - 0
Cash from Exchequer		<u>149 - 0 - 0</u>
		250 - 0 - 0
Cash to Charles [Scott's son]	<u>100 - 0 - 0</u>	
Balance		<u>150 - 0 - 0</u>

[Anderson, 1972].

These accounts were kept at irregular intervals and seldom had recognizable carry-forward cash balances. They do, however, attest to the large amounts of money Scott gave to his family, his ready ability to generate income from sources not subject to his bankruptcy arrangements, and a still extravagant lifestyle.⁷ Above all, it appears that Scott knew exactly how his finances stood.

SCOTT'S DOMESTIC ACCOUNTING – SOME IMPLICATIONS

As well as disclosing a hitherto unexamined aspect of Sir Walter Scott's private habits, namely, his personal accounting practices, this study also seeks to explore what the accounts reveal about their author.

First, Scott's accounting activities can clearly be understood as part of a fertile accounting scene in Scotland. His education in this subject is quite obviously connected with the wider 18th century Scottish expansion of accountancy which attracted the notice of Mephram and which was characterized by a profusion of practical accountancy texts underpinned by a growth in accounting education in both public and private schools. As Mephram has argued, this was "a part of the general intellectual ferment of the 'Enlightenment'" [1994, p. 284]. The Enlightenment has always been understood as having two distinct

⁷ One such source was reviewing works of literature for his son-in-law, John Gibson Lockhart, who was editor of the "Edinburgh Review", a literary journal. Cash from this source is displayed in the accounting statement shown. Lockhart went on to become Scott's biographer.

strands, one being the more philosophical writings of leading figures such as David Hume or Adam Smith, the other being empirical science of the kind which underpinned the early industrial revolution. The accountancy texts, Mephram notes, can be seen as “complementary to more renowned works in economics and law” produced at around the same time and thus more aligned with the practical, empirical side of the Enlightenment [1994, p. 284].

If the regulation of aspects of Scott’s everyday life through the maintenance of personal accounts can be seen as related to the Enlightenment, then this raises questions as to how his thought processes are to be understood and characterized. While he was and is associated in the minds of his readers with the Romantic images of the Scotland he portrayed in his poems and novels, more serious students of his work, such as Daiches, have noticed that:

... though his greatest novels deal with the recent history of his native Scotland, [Scott] ... was never simply a patriotic Scottish novelist. One side of him was totally captivated by the glamour of a violent and heroic past; the other side, belonging less to the wild Borders than to enlightened Edinburgh in the Golden Age, believed in reason, moderation [and] ... commercial progress [Daiches, 1971, p. 125].

Another commentator has observed in Scott’s work “conflicts... between the emotional and rational, the romantic and the Augustan”, while reminding readers that “the Last Minstrel was also chairman of the Edinburgh Oil and Gas Board” [Scott, 1981b, p. xxv], a business involvement of the “Author of *Waverley*” which arose in connection with the installation of gas lighting at Abbotsford. It is clear then, that Scott had a foot in both the Enlightenment and Romantic camps, and in particular, that his personal account keeping sheds fresh light on his commitment to rationality and Enlightenment empiricism in much of his life and outlook. As Daiches puts it [1971, p. 125], Scott belonged both to the Romantic Revival and to the Scottish Enlightenment, and “the blend of the two is like nothing else in our literature”.

A second point for consideration relates to what Scott’s accountancy practices reveal about the field of domestic economy and accounting. Walker has recently written [1998] on the use of accounting in the British bourgeois home in the 19th century, calling for more research into domestic accounting as applied

"in different social strata". Financial good fortune, together with literary success and social fame soon took Scott well beyond the realms of the average bourgeois, and his domestic account books have the potential to shed some light on the use of accounting at this more elevated social level. In addition Kirkham and Loft [2001] have noted that Vickery [1998] paints a less negative view of the role of women and their domestic accounting in 'genteel' households, as compared with those that were merely "bourgeois", and a study of Scott's household arrangements will reveal whether or not this was the case in this instance.

Scott's household could certainly be classed as 'genteel' in the sense intended by Vickery [1998, p. 13]. As an advocate, he fits into one of Vickery's 'genteel' categories by virtue of his occupation alone while still an unattached man. Added to this, his receipt of financial windfalls from legacies, already referred to, together with his marriage to a lady with noble connections, Charlotte Charpentier, in possession of an annuity from her brother, soon consolidated Scott's not inconsiderable social position. From this point onwards, his wealth, baronetcy, high connections and fame lifted Scott even further up the social scale.

Some general impressions of Scott's domestic economy and Mrs Scott's place in it emerge from the extant account books. For the earlier years of marriage (1799-1801), domestic expenditure amounted to about £1,000 per annum, rising to just under £1,300 for 1804, the first of the years of residence in the further distant and larger establishment of Ashestiel. Mrs Scott's expenditure (sums paid by Scott to his wife) has been abstracted by the authors from Scott's books and is as follows:

1799 - £283, 1800 - £295, 1801 - £269, 1803 - £301, 1804
- £361, 1805 - £320.

As was indicated earlier, Mrs Scott received more-or-less weekly payments, in guineas, from which she would have disbursed some servants' wages and other necessities. To these have been added other payments from Scott's cash books, over which Mrs Scott most likely exercised control, such as disbursement to resident nurses, clothes for children, beds for children or toys.

In terms of Mrs Scott's own bookkeeping activities, little evidence survives. Scott's own cash book for 1799 reveals the purchase of a book "for servants", most likely for the recording of wages. It seems probable that Mrs Scott would keep this,

together with the records of food and other lesser purchases so obviously missing from Scott's own personal account books. As Walker points out [1998, p. 493], in the larger household this might well have been the province of a senior housekeeper. It is not inconceivable that Mrs Scott may at first have kept the records, and as a larger household became necessary at Ashestiel or Abbotsford, perhaps responsibility was delegated, but this remains a matter for speculation.

The lack of references to Mrs Scott's income in the surviving account books presents something of a mystery. It is possible that Scott's wife's income is the source of the funds drawn from Drummonds Bank and entered into Scott's cash books, referred to earlier, but this must remain a speculation. That the couple's assets were pooled in this way is, however, consistent with the other facts. If this were not the case, and Mrs Scott had separate assets, these would possibly have been used to ease the intermittent working capital problems with Ballantyne's which Scott came to encounter almost from the beginning. If separate funds had existed, these would conceivably have been made available to Scott and would have been mentioned in Lockhart's massive and detailed biography of his father-in-law. Matters have been complicated by the fact that while the account books which have survived are revealing, they do not give the total picture concerning Scott's financial assets and liabilities.

Several clues as to Mrs Scott's status and role in the home have, however, survived. Prior to their marriage in 1797, Charlotte sent Scott a note advising him that "you write too much. When I am mistress I shall not allow it" [Lockhart, 1902, Vol. II, p. 326]. While there is an element of affectionate playfulness at work here, the note also suggests that Mrs Scott will have a degree of status and power in the home which might even extend to the regulation of aspects of her husband's behavior.

In a letter of 1803, Scott also alluded to "Charlotte with the infantry (of the household troops I mean)" who was to "beat a retreat to the Ettrick Forrest", Scott's way of alluding to the family's removal to Ashestiel in 1804 [Lockhart, 1902, Vol. III, p. 135]. It is clear from this that the female "officer" in charge of the Scott household enjoyed a high status at home and among friends. This also extended to the local community. While living at Ashestiel, Mrs Scott, for example, regularly visited the sick and the poor of the neighborhood to dispense food and medical assistance, earning herself and Scott a reputation for "unwearied kindness" [Lockhart, 1898, p. 276]. A further piece of evidence relates to the fact that Mrs Scott as early as 1800

demanded the acquisition of a “phaeton” at once “strong and low and handsome” for her personal use, a convenience and status symbol which was procured [Lockhart, 1898, pp. 122-123].

It appears then that Vickery’s assertion that ‘genteel’ women had significant and powerful roles in “the authoritative management” of households applies in the case of Mrs Scott [Kirkham and Loft, 2001, p. 84].

In some ways, Scott’s account books, as kept prior to 1807, are not unusual and represent a normal and conventional standard of orderliness expected of men [Walker, 1998, p. 489], although the sophisticated analysis to which they aspired appears uncommon. They reveal a typically patriarchal pattern of purchases. As Davidoff and Hall [1987, p. 387] point out, “men were responsible for buying ...wine, books, pictures, musical instruments and wheeled vehicles”. Examples of all these, apart from musical instruments, feature in Scott’s cash books, and were alluded to above. The plainest evidence of Scott’s espousal of the patriarchal ideal is, however, his obvious control of the family finances as a whole, especially his assigning of monies to his wife for personal or household purposes.

In view of the above, therefore, the relations between Scott and his wife appear nearer to the “*primus inter pares*” model of the ‘genteel’ marital partnership than the “lofty pine and slender vine” model of the bourgeois pairing [Davidoff and Hall, 1987, p. 397]. In keeping with this conclusion, Scott’s expenditure patterns certainly do not conform to the “domestic moderation” of the middle classes if, in the earlier period covered by the books of account they stop short of the “lavish” display and consumption, typical of the aristocracy [Davidoff and Hall, 1987, p. 21]. It certainly might be argued that Scott had gone further down this road in the post-Ashiestiel period. “At last I am a laird”, he wrote after first acquiring Abbotsford [Daiches, 1971, p. 86]. Scott’s casual attitude to debt was certainly closer to that of the aristocracy than the middle class. Indeed he at one point borrowed money from the Duke of Buccleuch [Daiches, 1971, p. 104]. But borrowing was not the only department in which Scott shared the habits of the aristocracy. In maintaining his personal account books with such diligence, Scott was compared by Lockhart with his near neighbor, Sir John Riddell, a social equal, who was said to have “kept day book and ledger as regularly as any cheesemonger in the Grassmarket” [Lockhart, 1902, Vol.6, p. 70].

SCOTT'S ACCOUNT BOOKS AND HIS ATTITUDE TO MONEY

The speed at which Scott came to produce novels, together with their uneven literary quality, meant that he had contemporary detractors. Some believed that Scott wrote for financial gain only. He answered his critics in the Introduction to *The Fortunes of Nigel* [1821] by stressing the benefits which the printing and publication of his novels brought to the economy and stating that the many thousands who purchased them clearly received "gratification" in return for their expenditure, which they were not obliged to make. While stressing the need to produce quickly to keep an author's name before the public, Scott also pointed out the self-evident truth that "no work of the imagination, proceeding from the mere consideration of a certain sum of copy-money, ever did, or ever will succeed" [Scott, 1821, p. 23]. Scott went on to indicate that he did not consider himself of a "greedy or mercenary disposition", and that it was sensible to accept "a just recompense" for his time and "a reasonable share of the capital which owes its very existence to his exertions". He considered himself "answerable to Heaven only" for his expenditure, part of which would "wander, heaven directed, to the poor" [Scott, 1821, pp. 23-24].

The writer's protestations of good intention did not satisfy everyone, especially Thomas Carlyle, the eminent historian and essayist, who wrote in 1838, after Scott's death that:

Our highest literary man who immeasurably beyond all others commanded the world's ear, had, as it were, no message whatever to deliver to the world; wished not the world to elevate itself, to do this or to do that, except simply pay him for the books he kept writing [Hayden, 1995, pp. 345-377].

As was indicated above, Scott was earning from three sources quite early in his married life, his Sheriffship, his appointment at the Court of Session, and his writing. It was not until 1824, however, that his country house in the Scottish Borders, Abbotsford, was complete. Its building and furnishing coupled with the acquisition of hundreds of acres of adjacent and not very productive land soon absorbed the bulk of his literary profits. It had been Scott's intention to spend only £1,500 in restoring the farm which originally stood on the site. From 1812 to 1824, increasingly ambitious architectural plans, finally those of William Atkinson, took shape causing Scott to observe in 1823 that "Builders and planners have drained my purse" [Daiches, 1971, p. 92]. Interiors were designed with the

help of Daniel Terry, the actor, and packed with historic armor, old weaponry and stained glass windows. There was a magnificent library-study, full of expensive books, with secret recessed departments. Scott intended Abbotsford to be a kind of time capsule, "a thing to dream of, not to tell" [Daiches, 1971, p. 92]. Externally the house was decorated with stones from historic Scots buildings, and its silhouette was marked out by plentiful battlements and turrets in a new and trend-setting style that was part-Gothic and part-Scots Baronial. The house became a center of lavish and frequent entertainment for a never ending stream of literary and aristocratic guests, attracted to Scott like a moth to a flame.

As Daiches writes [1971, p. 95], Scott was impulsive in everything he did, and Abbotsford was part of a spontaneous cycle of activity which involved the rapid writing of instantly successful novels, the printing of which kept Ballantyne and Company busy and the sales of the copyrights of which funded the construction and furnishing of Abbotsford and Scott's hospitable lifestyle. Out of this, too, a large household staff, many regarded by Scott as close personal friends, was maintained and the future of Scott's family was generously provided for. There can be no doubt, either, that Scott was attempting to create a dynastic home at Abbotsford, intended not only to house his descendants and much-loved staff in conditions of paternalistic friendship, but also, to establish a branch of the Scott clan in perpetuity [Daiches, 1971, pp. 91-94].

The stream of funds which kept everything afloat dried up dramatically in 1825 with the onset of a UK-wide financial crash. Accounting information relating to Scott and his business involvements is fragmentary, but the interlinked businesses of publishing, printing and bookselling had always been vulnerable to contractions of credit. Payments for goods and services, including the copyrights of novels, were made from business to business by means of post-dated bills of exchange, augmented from time to time by "accommodation bills", that is, bills given by one person to another to provide credit in time of need. The bills were to be discounted by the banks and 'retired', that is, paid off, at their due dates, all of which was standard commercial practice [Checkland, 1975, pp. 189-192]. On 17 January 1826 Scott learned that he was ruined. Hurst Robinson, the London agents of Constable, one of Scott's publishers, defaulted on a bill payable to Constables, whose own credit dried up and who were linked through indebtedness with James Ballantyne and Company. The latter firm, whose capital had for some time

belonged to Scott alone, was obliged to stop payment and thus became bankrupt. Scott's personal and business responsibility for debts amounted to £120,899, over and above which a recently completed mortgage of £10,000 also existed [Anderson, 1998, pp. xxx-xxxi].

Abbotsford had been transferred over to Scott's eldest son, Walter as a precondition of his marriage to the wealthy heiress, Jane Jobson early in 1825, on the basis that the author should have the liferent (life occupancy) of it, meaning that this asset was not Scott's to repay creditors with. On the understanding that Scott would write for the benefit of his creditors, his trustees in bankruptcy allowed him to remain at Abbotsford. As Anderson [1995, p. xxxi] notes, "their best hope was to trust in Scott's own resolve to write his way out of difficulties". This the ailing Scott did stoically until his death in 1832, producing five novels, a nine-volume life of Napoleon, a two-volume history of Scotland and a multiplicity of other items. In less than six years Scott earned some £50,000 for his creditors, most of the balance due coming shortly after his death through the sale of his copyrights.

After Scott's death the controversies concerning his attitude to money continued to raise their heads. When John Gibson Lockhart published his monolithic and somewhat hagiographic *Life of Scott* in 1837, it became clear that he blamed the Ballantyne brothers, James and John, for mismanaging the printing and publishing businesses in which Scott had been involved, and thus for Scott's failure. A refutation of Lockhart's claims was published by Ballantyne's Trustees and son in 1838, a reply to this by Lockhart in 1839, and a final rejoinder to Lockhart in 1840, [Ballantyne Controversy, *passim*]. These voluminous tracts quite naturally produced evidence of Scott's drawings from the Ballantyne businesses which they successfully related to Scott's personal expenditures. Ballantyne's Trustees did not do this with the intention of denigrating Scott, whom they revered, but rather to disprove Lockhart's defamatory remarks regarding James and John Ballantyne.

The matter was not allowed to die. In 1968, Eric Quayle, historian of the Ballantyne bookselling businesses, having seen the relevant archives, published *The Ruin of Sir Walter Scott*. This book probed the detail of the relations between Scott and the Ballantynes, reaching the conclusion that Scott was greedy "a weakling beset with traits of character that allowed a consuming self-interest to dictate modes of conduct that finally brought ruin on himself and lesser men" [Quayle, 1968, p. 11].

According to this very negative view of Scott, financial ambitions and his desire to be seen above all else as a Tweedside Laird came to dominate his thinking and to drive his literary output, thus affecting its quality. It therefore followed that greed was the reason for Scott's investment in Ballantynes. The creation of Abbotsford in particular, Quayle argues, had led to reckless personal and business borrowing by Scott, "light heartedly entered into", in anticipation of future monies from novels. Quayle's case is one of interpretation, based largely on Scott's indisputably heavy business and personal borrowings and his high personal expenditure. Quayle also produces evidence that Scott was usually robust in his business dealings, an example being his negotiation of a high fee from Constable for the poem *Rokeby*. In this instance Constable noted that "he [Scott] wishes to squeeze us as he has the B's [Ballantynes]" [Quayle, 1968, p. 66]. At various points Quayle also notes that Scott insisted on 15% interest on his capital in the Ballantyne business, making it clear and indubitable that Scott was the dominant influence in the enterprise.

Scott's surviving account books provide *prima facie* evidence suggesting it is improbable that he was "light-hearted" in his financial affairs, at least in the sense of ignoring obligations. Indeed, Quayle is well aware [1968, p. 77] that both Scott and James Ballantyne regularly discussed the printing firm's cash flow requirements, including the bills of exchange that were receivable and payable month by month. Details of the sums and firms involved survives plentifully [Ballantyne Controversy, *passim*]. Quayle also knew from Lockhart's *Life* of Scott's meticulous personal account books [1968, p. 134], although there is no evidence he ever saw them. It is clear, then, that record keeping, either business or personal on Scott's part, is not what is in question. What concerns Quayle more is the constantly growing extent of Scott's indebtedness and expenditure at both a personal and business level.

Scott's personal books, as was discussed earlier, certainly display an early tendency to spend to the limit, to borrow money in anticipation of receipts and to live lavishly. They also suggest that Scott handled his finances knowledgeably, a speculation borne out by his 'balance sheet' approach to assessing his own wealth as the London banking scene continued to deteriorate late in 1825, prior to his bankruptcy. He noted in his Journal [Anderson, 1998, p. 45] that "upon a fair balance" he was worth "not less that £40,000 or nearly £50,000 above the world". When this assessment was made, Scott did not realize that he would

have to stand liable for the business debts of James Ballantyne and Company, whose assets had melted away in the crash, as well as his own vast debts. At this point, as usual, Scott had little cash and Ballantyne and Company's debts alone stood at £42,239, having risen from some £27,000 three-and-a-half years earlier. It is certainly true that Scott and the Ballantyne business, which he undoubtedly controlled, was under-capitalized and survived on maximum borrowing, and that this was increasing as Abbotsford grew.

Was this responsible for the crash? It was a necessary condition for it, but not a sufficient one. Self evidently, the sufficient condition was the government assisted collapse of the UK financial system which caused the supply of credit relied upon by Ballantyne and Company and Scott and his publishers to dry up. While Scott recognized that Abbotsford was his "Dalilah" [Anderson, 1998, p. 47], a point made much of by Quayle, he did so with hindsight, and it is plain that Scott blamed his bankruptcy directly on the fact that "London chuses to be in an uproar" [Anderson, 1998, p. 51].

Was Scott "greedy" in all this? His account books, letters and journals reveal a myriad of small acts of generosity to all levels and grades of society. They also reveal that he spent vastly greater sums on entertaining and on property. This certainly was "a thriftless sort of charity", to use his own phrase, which did not cause him much sacrifice, although he was generous in absolute terms [Scott, 1821, p. 38]. As Hesketh Pearson has put it in what appears a more balanced assessment that better fits the facts than Quayle's, "He did not care for the possession of money, but he enjoyed the use of it in realizing his dreams and making life easier for others" [Pearson, 1954, p. 150].

If Quayle is in any way successful, it is in showing that Scott was indeed a complex figure, one whose motives are a matter of interpretation rather than absolute proof. However, most students of Scott tend to side with A.N. Wilson, who stated that "the experience of reading Scott brings one into touch not merely with great art, but with the greatness of the man" [Wilson, 1979, p. 5].

CONCLUSIONS

As can be seen from the above, the personal account books of Sir Walter Scott have proved a most valuable resource. They reveal, in summary, that he was well acquainted with the techniques of bookkeeping, and as such, a personal exemplar of the

degree to which accounting had permeated Scottish life by the time of the Enlightenment. The books also confirm the view that Scott did indeed have a foot in both the Enlightenment and Romantic camps, in terms of his cast of mind, and also that financial arrangements in the Scott household conformed with what is known of other 'genteel' households: that the husband was in overall control, with the wife in a prestigious if still inferior position.

The existence of the books also leads to the conclusion that an understanding of Scott's business risk-taking cannot be reached without taking into consideration his detailed knowledge and consistent practice of accountancy, over against which allegations of carelessness or recklessness, in the sense of ill-considered commercial decision-making, appear inappropriate.

In terms of Scott's personal expenditure patterns, the account books have their limitations. While they reveal both the lavishness and generosity so typical of Scott, they are necessarily silent on the motivation behind his expenditures. As was indicated, the moral principles underpinning these expenditure patterns remain, therefore, open to interpretation, although few would side with the very unsympathetic and negative views that have occasionally been expressed concerning one of the most famous Scottish figures of all time.

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PROFESSIONAL DOMINANCE: THE RELATIONSHIP BETWEEN FINANCIAL ACCOUNTING AND MANAGERIAL ACCOUNTING, 1926-1986

Abstract: This paper examines the relationship between financial and managerial accounting as reflected in articles, editorials and letters to the editor published in *Cost and Management*, the Canadian trade magazine for management accountants, between 1926 and 1986. It has been claimed that during this period management accounting techniques lost their relevance to manufacturers, in part, due to the dominance of financial accounting over managerial accounting. This is also the period in which management accounting struggled to become recognized as a profession distinct from financial accounting. The analysis thus focuses on the jurisdictional dispute between financial and managerial accounting and the mechanisms by which managerial accounting was subordinated to financial accounting. The paper identifies the technical, organizational and professional mechanisms used to subordinate managerial accounting. The paper also demonstrates that management accountants were aware of the consequences of their relationship to financial accounting for the relevance of their techniques. Contemporary events suggest that the intersection of financial and managerial accounting remains disputed territory.

INTRODUCTION

Since the publication of Johnson and Kaplan's [1987] critique of the relevance of traditional management accounting techniques to managerial decision-making, there have been numerous articles either heralding a new era in management accounting [e.g., Berliner and Brimson, 1988] or fighting a rearguard action to prevent accountants from redeveloping the

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wheel [e.g., Shank, 1989]. Professional associations of management accountants have taken up the challenge of regaining relevance by redesigning their training programs to emphasize the role of their members as decision-makers rather than information preparers.¹ There has also been a boom in consulting firms offering to replace “obsolete” management accounting systems with new systems focused on activities, time, quality or throughput.² It is clear that management accounting has entered a new phase in its development in which it is seeking to reinvent itself and reaffirm its legitimacy as a key part of modern management practice.

The attempt by manufacturing firms, professional associations, consulting firms and academics to change management accounting must take into account the institutional context in which management accounting is practiced. If we do not understand why management accounting lost its relevance to manufacturing firms³ and whether or not these conditions have changed, we are unlikely to be successful in making lasting change in management accounting practice [Shields and Young, 1988; Luft, 1997].

In this article I examine one potential factor⁴ explaining the inability of management accounting to generate information suited to a changing manufacturing environment: the relationship between managerial accounting and financial accounting. Johnson and Kaplan [1986, p.260] speculate “the dominance of financial accounting procedures, both in education and in practice, has inhibited the dynamic adjustment of management accounting systems to the realities of the contemporary environ-

¹ For example, the Society of Management Accountants of Canada renamed their magazine as *CMA Management* in 1999 to reflect this change in emphasis. Their Website defines a CMA as “a financial management professional who combines accounting expertise and business management skills to provide leadership, innovation, and an integrating perspective to organizational decision-making”.

² A review of any contemporary management accounting textbook will highlight these issues but for a good review of emerging issues see Ansari [1999].

³ I recognize that the question of *whether or not* management accounting lost its relevance is debatable. See footnote 6.

⁴ The factors that might be relevant include the changing costs of information processing capabilities, changes in the nature of the business environment, theoretical developments in information economics and others. This paper focuses on the nature of the relationship between financial and managerial accounting; it does not address the question of the effect of this relationship on the irrelevance/relevance of management accounting information.

ment”.⁵ This sentence is a strong statement about the relationship between financial and management accounting during the period considered by Johnson and Kaplan. The use of the term “dominance” implies a relationship of power (i.e., if financial accounting is dominant then management accounting must be subordinate). This relationship is claimed to extend to both practice and education. Finally, Johnson and Kaplan imply that management accountants recognized the “realities of the contemporary environment” and had preferences for different techniques but were “inhibited” by the demands of financial accounting.

The possibility that financial accountants could affect the development of management accounting is consistent with Freidson’s [1970] analysis of the role of professional dominance in structuring related professional fields and Abbott’s [1988] emphasis on the role of jurisdictional disputes in the development of professions. Freidson’s work is concerned with the effect of the dominance of one group of professionals (in his case, doctors) over other professionals in interdependent fields (health care more broadly). The existence of professional dominance implies that one group within the division of labor has significant influence on the definition of problems, the selection of intervention strategies and the organization of work. He suggests that professional dominance can prevent an entire system of professions from meeting the needs of clients. Freidson, however, regards professional dominance as an institutionalized aspect of practice and recommends empowering the client and the administrative structures within which the profession practices as a means of overcoming the attendant problems. He does not enquire into how these relations of dominance between professions are created and/or maintained.

Abbott contends that the relationship/boundary between professions is subject to negotiation and suggests, “effective historical sociology of professions must begin with case studies of jurisdictions and jurisdictional disputes” [Abbott, 1988, p.2]. For

⁵ There is a growing literature that provides alternative histories of management accounting. Several studies question Johnson and Kaplan’s claims that academics were to blame for the declining relevance of management accounting by showing innovation in course materials e.g. Solomons [1987], Vollmers [1996]. Other studies have argued that the use of management accounting techniques reflects the economic and social system in which the profession is embedded thereby defining relevance in a different sense than that used by Johnson and Kaplan, e.g. Ezzamel, Hoskin and Macve [1990], Hopper and Armstrong [1991].

Abbott, then, professional dominance is not inherent in the structure of the professions but an outcome of processes of negotiating boundaries between different professional groups. Abbott [1988, p.230] asserts that cost accounting "has been without question the most contested information jurisdiction in American history." His analysis of jurisdictional disputes related to cost accounting, however, focuses on the period up to 1925 and on the boundary between cost accounting and such professions as statistics, engineering and operations research [ibid., pp. 226-239]. He concludes that by 1925 accountants, as a broad profession, had gained control of this field. Further he suggests, "since cost accounting took place within organizations, it rapidly lost many of its links with public accounting and became largely independent" [ibid., p. 232]. Contrary to this view of the resolution of jurisdictional disputes in cost accounting, the claims by Johnson and Kaplan that managerial accounting was subordinate to financial accounting suggests that this process of jurisdictional negotiation has failed or is incomplete.

Does it matter if management accounting exists as an independent profession rather than being under the control of financial accounting? There are a number of articles that demonstrate the dangers of using financial accounting information for managerial decision-making [e.g., Kaplan, 1988; Cooper and Kaplan, 1987]. These articles provide technical reasons why management accounting information should be independent of financial accounting. These articles however do not address the question of whether or not management accounting has emancipated itself from financial accounting in order to fulfill the role that theorists suggest it should play in organizations. The issue is of particular concern as the reform movement begun by Kaplan has come full circle. In early work, the need to separate cost accounting systems from financial accounting systems was highlighted but in more recent work the need to integrate information systems has been emphasized through the construction of enterprise resource planning (ERP) systems. [e.g., Cooper and Kaplan, 1998]. If the factors that originally caused management accounting systems to be dominated by financial accounting systems still exist, then the management accounting information supplied by these systems may still be irrelevant for managerial decision-making.

The remainder of the article is organized around three questions. First, is there evidence that management accounting was perceived by management accountants to be subordinate to financial accounting during the period 1926-1986? The evidence

supports the induction that Canadian management accountants perceived three forms of subordination: (1) limitations imposed upon management accounting technique due to a requirement to integrate cost accounts into the general ledger (technical subordination); (2) limitations on the influence and innovativeness of management accountants due to their position within organizational hierarchies (organizational subordination); and (3) limitations on the profession of management accountancy originating from the role of chartered accountancy in its creation (professional subordination).

Second, what specific mechanisms brought about this relationship? The data suggest that the subordination of management accounting to financial accounting was a side effect of the new profession's search for legitimacy. Management accountants were under pressure from auditors and financial accountants to ensure that cost accounts reconciled with the general ledger as a test of their accuracy and these groups provided the intellectual capital (such as concepts and texts) on which management accountants based their practice. Furthermore governments and trade associations were pressuring management accountants to develop verifiable uniform costing systems thereby linking management accounting practice to audited statements. Each of these institutional pressures constrained the development of management accounting technique.

Third, were management accountants aware of the effect of environmental conditions on the relevance of their information to management decisions? The data provides evidence that management accountants were aware of the effect of competition and changing technologies on the relevance of their work throughout the period. There is a tension in the literature between approaches that reinforced the link between financial and managerial accounting and approaches that tried to carve out a distinct form of accounting linked to the economic and strategic decision-making needs of the firm. This tension relates to the question of whether the fortunes of management accounting as a profession were tied to the status of financial accounting (and more generally public accounting) or whether the profession could establish a value to clients independently of the value of financial reporting.

METHOD

This paper examines the relationship between management and financial accounting as reflected in the Canadian manage-

ment accounting literature between 1926 and 1986. The use of Canadian data provides further insights into the development of the management accounting profession in Canada⁶ and allows for identification of potential cultural biases in the work of Kaplan and Johnson and that of others drawing on the US experience.

The starting date used to define the time period examined reflects the claim by Johnson and Kaplan [1987] that all of the important management accounting innovations were developed by 1925. This claim is also supported by the work of Chandler [1977] and Garner [1954] but see Fleischman [1996] for a summary of contrary evidence. Johnson and Kaplan claim that, after 1925, the dominance of financial accounting over managerial accounting began to erode the relevance of management accounting for decision-making. The end-point for the period is the publication of Johnson and Kaplan's [1987] book in recognition of its impact in encouraging introspection by management accountants and innovation in management accounting technique.

The data on which this paper relies consists of all articles, editorials and letters published in *Cost and Management* magazine between 1926 and 1986 that mentioned both management and financial accounting/accountants. This was the official journal of the Society of Management Accountants of Canada.⁷ I assume that this body of literature would capture the tensions that may have existed between managerial and financial accounting during this period. I recognize, however, that the relationship between the content of this literature and actual management accounting practice remains moot. Although *Cost and Management* was not the only source of management accounting

⁶ Unlike the financial accounting profession in Canada, the evolution of management accounting has not received a great deal of attention by academics. In Murphy's [1994] *Anthology of Canadian Accounting History*, for example, only one article examines the evolution of management accounting.

⁷ The emphasis of the Society throughout its history is reflected in the changes in its name:

1920-29	Canadian Society of Cost Accountants
1930-46	Canadian Society of Cost Accountants and Industrial Engineers
1947-66	Society of Industrial and Cost Accountants of Canada
1967-76	Society of Industrial Accountants of Canada
1977- 99	Society of Management Accountants of Canada
1999-date	CMA Canada

literature in Canada, it is the only publication dedicated to management accounting issues and produced by management accountants. The section below provides a brief history of the Canadian accounting profession and the development of a management accounting literature in Canada.⁸

The first professional organization of accountants in Canada was formed in 1879 in Montreal, Quebec, and it gained a provincial charter in 1880. Other organizations, each calling their members Chartered Accountants (CA), quickly appeared in other provinces and at the federal level [Richardson, 1993, Table 1]. In 1910, the provincial institutes gained control of the federally incorporated Dominion Association of Chartered Accountants (DACA) and, in 1911, began publishing the *Canadian Chartered Accountant* (CCA). Although articles published in the CCA were primarily on public accounting topics, a few cost and management accounting papers did appear. These, along with a small number of articles in engineering journals,⁹ were the only Canadian source of guidance for management accountants in the formative years of the profession (1910-1922).

In 1908, the Canadian Certified General Accountants Association was formed to represent the interests of accountants in industry. The Association produced a newsletter beginning in 1923, but this had no technical content until 1967 when *CGA Magazine* was introduced. In 1920, explicitly following the lead of Britain and the US, the CA's created the Canadian Society of Cost Accountants (CSCA) to represent and provide professional guidance to cost accountants. The CCA, to support this new

⁸ The description of the management accounting literature is updated from Richardson and Williams [1988].

⁹ A review of the *Engineering Index* over the sample period uncovered eleven cost accounting articles from Canadian engineering journals between 1908 and 1922. There were no cost accounting articles from Canadian engineering journals listed between 1929 and 1986. The lack of cost accounting articles in these journals after the 1920s may be attributed to the inclusion of industrial engineers in the Canadian Society of Cost Accountants. Many early contributors to *Cost and Management* had engineering backgrounds.

Although the *Engineering Index* is an American publication, it does index Canadian engineering and trade journals dealing with engineering in general, mining, architecture, electrical engineering, civil engineering and legal issues in engineering. The coverage of this index is broad enough to allow generalization of these findings to other journals that may not have been covered. The key words included in this search (from among those used by the *Engineering Index* to categorize articles) were cost accounting, industrial management, depreciation, budgetary control, production planning and control, inventory control and industrial economics.

organization, expanded its publication from bimonthly to monthly and promised to increase its coverage of management accounting topics. This arrangement continued until 1922, when the Society became affiliated with the National Association of Cost Accountants (NACA) in the US. As part of the affiliation agreement, the Society's members received copies of the NACA's publications. In 1926, however, the relationship was severed due to the CSCA's desire for greater autonomy and better service. Jamieson [1948, p. 96] attributes the break up to differences in the "maturity" of the US and Canadian economies and, therefore, the different interests of management accountants in each country.

In 1926, the Society introduced its own journal, *Cost and Management*, which has continued in publication to the present (its name changed to *CMA Magazine* in 1985 and *CMA Management* in 1999). The following year, the Society began administering examinations leading to a "certificate of efficiency". Allan [1982, p. 21] suggests that this program followed the example of the Institute of Cost and Works Accountants in Britain in form, but in content followed the US example and was more concerned with financial control than productions/operations management.

Also during this period, in 1921, a group that eventually became the Canadian Institute of Certified Public Accountants was incorporated in Ontario as the Association of Accountants and Auditors of Ontario. This group, like the CAs, began as a general accounting association, but increasingly specialized in public accounting. Between 1950 and 1961, they produced the *Canadian Journal of Accountancy* that included some cost and management accounting articles. In 1962, the Institute of Certified Public Accountants merged with the CAs.

Following this line of development, the journals that Canadian management accountants may have referred/contributed to during the period 1926 to 1986 are:

1911 - 1921	<i>Canadian Chartered Accountant</i>
1922 - 1925	<i>National Association of Cost Accountants Bulletin</i> and <i>National Association of Cost Accountants Year Book</i>
1926 - 1986	<i>Cost and Management/CMA Magazine</i>
1950 - 1961	<i>Canadian Journal of Accountancy</i>
1967 - 1986	<i>CGA Magazine</i>

Cost and Management was thus the key source of professional guidance for management accountants during this period

and the only publication controlled by management accountants. It is recognized that professional journals serve many purposes that may affect their content. They serve as a means of communication among members to advance technical knowledge and to establish an epistemic community. They also provide the professional elite with a means to “re-present” the external demands on the profession in a manner that helps the rank-and-file membership make sense of their craft and its place within the institutional field [Simmons and Neu, 1997]. It is the latter role that is the focus of this paper.

Abbott [1988, pp. 99-100] pays special attention to the role of rhetoric in establishing and contesting jurisdictional boundaries. Professional journals provide an important media through which rhetorical strategies are implemented. The journals are read in this paper as part of the broader discourse about the role of cost accounting and its relationship to other professionals claiming influence upon this area of practice. Abbott [1988, p. 135] suggests that jurisdictional disputes reach equilibrium over different time frames. He suggests, based on his review of the history of many professional bodies, that “jurisdictions are renegotiated in workplaces over two- to three-year periods, in public over ten- to twenty-year periods, in law over twenty- to fifty-year periods”. The data used in this paper relate to the “public” recognition of jurisdictional boundaries. The data suggest that jurisdictional disputes between cost accounting and financial accounting have recurred at about 20-year intervals triggered by “disturbances” [Abbott, 1988, p. 215] such as the development of new techniques such as marginal or standard-costing or the rise of inflation in the immediate post-war period and again in the late 1960s/early 1970s. The period under consideration thus provides several overlapping episodes in which cost accounting was motivated to reconsider the boundaries between itself and financial accounting.

In this article I use commentaries (articles, editorials and letters) from *Cost and Management* between 1926 and 1986 to specify the nature of the relationship between financial and managerial accounting. A research assistant (blind to the topic under consideration) read the entire set of journals and any contribution that mentioned *both* financial and managerial accounting was copied for further analysis. Since the purpose of this paper is inductive rather than deductive, no formal content analysis was undertaken. A grounded theory approach was used [Glaser and Strauss, 1967; Strauss and Corbin, 1998] in which conceptual categories were created that could parsimoniously

and comprehensively capture the variation in the data (this is referred to as achieving “theoretical saturation”).

The prior literature used in this study [such as Abbott, 1988; Lukes, 1974; Freidson, 1970] served to direct the “theoretical sampling” undertaken; and to provide a starting point for investigation of the phenomenon. In this case the literature was used to identify the boundary between two professions as an important empirical site and possible power relations across jurisdictional boundaries as a research question [Strauss and Corbin, 1998]. Theoretical sampling is an iterative process in which the data are re-examined in light of the emerging conceptual structure until “theoretical saturation” is achieved. The results reported below interweave representative samples of text with the conceptual categories that emerged from that data. These results are related back to the literature as a way of illustrating the applicability of those concepts to this domain and to demonstrate how the results extend or refine the existing theory.

WAS MANAGEMENT ACCOUNTING PERCEIVED TO BE SUBORDINATE TO FINANCIAL ACCOUNTING?

The assertion that management accounting is “subordinate” to financial accounting implies that a relationship of power existed between the two groups.¹⁰ Following Lukes [1974], this relationship could be reflected by (1) management accountants behaving, against their wishes, in ways preferred by financial accountants, (2) the exclusion of management accounting concerns from consideration in the development of the profession, and/or (3) management accountants forming preferences based on the ideological control of the financial accounting profession. The data used in this paper provides insight into the first two views of power and indirectly into Lukes’ [1974] third dimension of power relations.

There is consistent evidence that management accountants felt constrained in the development of their techniques and unable to implement their preferred procedures. The evidence presented below suggests that this relationship was perceived in the linkages between the techniques of financial and management accounting, in the organizational roles that the two groups filled

¹⁰ I will use the terms “accounting” and “accountant” interchangeably but in all cases the exercise of power is assumed to require an agent. I thus focus on management and financial accountants as groups rather than managerial and financial accounting as sets of concepts.

and in the relationship between their professional societies. In each of these areas management accountants recognized and thereby reaffirmed the dominance of financial accountants.

With regard to the technical aspects of their craft, management accountants felt pressure to integrate cost accounts with the general ledger, to fully allocate costs and to use historical cost information during periods of inflation. Although these are necessary attributes of historic cost financial reports, these requirements were seen as limiting the usefulness of accounting information for internal decision-making. These concerns arose particularly regarding the use of standard and marginal costs during the 1920s and 1930s, and regarding the need to adjust accounting information for the effects of inflation during the late 1940s and early 1950s and again during the late 1960s and early 1970s [Leacy, 1999].

Smalls, an influential educator at Queen's University during the first decades of the 20th century, was pointedly critical of the effects of integrating cost accounts into the general ledger. He attempted to demonstrate the relevance of marginal cost approaches that would ignore some costs in order to produce information relevant to decision-making:

The contemporary literature gives the impression that costing procedures were prostituted to the requirements of financial accounting and that everyone was satisfied provided that the aggregate of unit costs calculated by the cost accountant equaled the total expenses recorded in the general ledger [Smalls, 1939].

In order to achieve integration, it was necessary to fully allocate costs to products. This resulted in arbitrary allocations that distorted the costs of particular products:

...perhaps the most obvious example of external reporting's overriding and distorting influence on the internal accounting system is the arbitrary allocation of joint production costs ... Decisions are made on the basis of opportunities taken and rejected but the system does not record opportunity costs ... there appears to be sufficient evidence to suggest that financial accounting practices destroy or limit the usefulness of much accounting data [Burrows, 1974].

Many of the early publications in *Cost and Management* were descriptions by members of the Society of the cost accounting system installed in their place of employment. In later years, similar articles were produced as extracts from the

“theses” that the Society required students to submit to qualify for their designation (these appeared between 1941 and 1965 [Allan, 1982, p.72]). For the most part these papers describe the integration of cost accounts with the general ledger without comment on the managerial usefulness of this procedure [Selby, 1940; Hood, 1929; Lanthier, 1930]. In other words, the integration of cost accounting systems with the general ledger was a taken-for-granted part of accounting practice that did not need to be bracketed and explained (consistent with Smalls’[1939] comment quoted above). The only exception to the integration of cost accounts with the general ledger was in firms which used a standard cost system for performance measurement or pricing [McKnight, 1950; Ripley, 1960; Nelles, 1949]. In these cases a separate set of records was used for specific management purposes but this appears to have been unusual. For example, McKnight [1950, p. 316], in describing his company’s cost system, notes that “this company has not accepted the popular trend toward standard costs as a composite part of the accounting system.”

An issue that consumed many pages of *Cost and Management* was the effect of inflation on internal accounting information. There was widespread agreement that failure to deal with inflation had adverse consequences, particularly in terms of the tax liability faced by the firm, but management accountants were unable to abandon the historic cost basis required for external reporting:

Industrial accountants must, more efficiently and directly, cost for the future and let past records be maintained for tax purposes [Editorial, 1947].

How can we expect the fiction of the stability of the dollar to be discarded by our tax lawmaker if we do not even dare to deviate from this fictitious concept for our internal accounting purposes [Editorial, 1957b].

There had been very little progress in the creation of financial accounting standards for inflation-adjusted accounting. Zlatkovich [1975] saw the lack of financial reporting standards for inflation as an opportunity for management accountants to experiment with alternate formats. He also saw that once an inflation-adjusted financial accounting standard was developed, management accounting would become subordinated to that standard:

The accountant for an enterprise can prepare whatever types of reports and statements it is judged will best

serve the needs of management without regard for external reporting requirements insofar as price-level changes are concerned. This may not be true much longer (due to the creation of external reporting standards) [Zlatkovich, 1975].

Edwards [1974] suggested that management accountants would only account for inflation after financial reporting standards had been changed:

If the historical cost valuation basis were to be abandoned, what alternative valuation basis would be used in terms of internal decision-making as it relates to managerial accounting, and how would that affect the managerial accountant? It would place responsibility on him to relate such questions as return on investment not based on cost or book value but rather based on replacement cost in terms of the assets entrusted to management at various levels [Edwards, 1974].

The quotations presented above suggest that management accountants had preferences for particular accounting techniques but were unable to implement these techniques due to the requirements imposed by financial accounting. I will refer to this phenomenon as “technological” subordination. The only exception was in a few firms that had implemented standard cost systems to provide information for monitoring the efficiency of production separately from the general ledger. In the majority of cases, cost accountants either uncritically noted the need to integrate their cost systems with the general ledger or were critical of the effects of this requirement on the quality of information produced for management decision-making.

There is also evidence that management accounting was “organizationally” subordinate as well. The organizational subordination of management accounting followed from its primary use in preparing information for financial reporting:

The inference seems to be fairly obvious that cost accounting is a detail or phase of general accounting and is thereby a secondary or even minor rank in the hierarchy of the finance function in a corporation...Certainly there is no question of secondary status for men soundly trained in accounting, costs and budget principles, whether they be called cost accountant or industrial accountant [Editorial, 1956].

Abbott [1988, pp. 36, 98] notes that a common rhetorical technique in boundary disputes between professions is the

attempt by one profession to reduce the work of competitors to a subset of their own. In the quote above, the editor of *Cost and Management* recognizes that financial accountants have taken this view of cost accounting work but does not effectively rebut the proposition. Instead the editor attempts to reinforce the cost accountants' image of their level of qualifications without making any claim for the independence of cost accounting from financial accounting.

Management accountants were marginalized within the organizations for which they worked. Either they were located at head office within a financial reporting department, or they were assigned to divisional offices as direct support for shop floor level planning and control processes. In either case, management accounting was not positioned to influence organizational priorities or procedures. Management accountants also tended to be isolated in their work settings:

While public accountants work mostly with other public accountants, management accountants, scattered over a wide range of occupational pursuits work mainly with individuals who are 'foreign' to their discipline [Jones, 1973].

This isolation was seen as inhibiting the development of a sense of community on which management accountants might build a unique identity. This isolation also meant that cost accountants must work closely with non-professionals in completing their tasks. Abbott [1988, p. 118] notes that within professions, those practitioners who work in the most professional environment (that is, isolated from clients) are accorded highest status. The position of cost accountants within the organizational structure meant that their claims to status among accountants, and hence their ability to legitimate jurisdictional claims, were weakened.

The perception of management accounting as a marginal activity compared with financial accounting was reinforced by hiring practices that regarded financial accountants as substitutes for management accountants but not vice versa. This reflected the fact that about half of all Chartered Accountants would eventually work in industry rather than in public practice. At the same time, public practice was subject to various degrees of regulation that limited practice rights to Chartered Accountants and, in some Canadian provincial jurisdictions, Certified Public Accountants and Certified General Accountants. People who qualified as management accountants, therefore, could not practice as public accountants without meeting

further regulatory requirements. The reverse was not true: a financial accountant could practice as a management accountant without further qualification.

There was also skepticism about the degree to which management accounting and other specializations had a distinct technical base. When new areas opened up in accounting, the evidence suggests that financial accountants were able to adapt to these career opportunities:

There has been a definable drift in all concerns toward a greater degree of specialized authority [but]...The same old boys seem to be doing these jobs which apparently points out special adaptability rather than special training, which is a good thing in any case [Editorial, 1954b].

Abbott [1988, p. 229] notes that in the higher status professions there are typically fixed career paths that provide specific training and experience. The distinction between the career paths of financial and cost accountants was used as a rhetorical device to assert the dominance of one profession over the other. Financial accountants completed an apprenticeship in accounting firms and a series of three examinations before receiving their designation; management accountants trained "on-the-job". The ability of financial accountants to take on the management accounting role without further training was used to demonstrate the lower professional status of management accounting and to undermine claims to a distinctive jurisdiction.

Management accounting was also "professionally" subordinate in the sense that the Institutes of Chartered Accountants had created the Society of Management Accountants of Canada and the survival of the society during its early years depended upon their support. The first council of the Society consisted of the Presidents of eight provincial Institutes of Chartered Accountants. The initial intent of the CAs was to create an organization to accommodate management accountants but that would not create a credential which would compete with the CA designation [Editorial, 1920a,b; Mann, 1975]. This situation contrasts with the formation of the National Association of Cost Accountants (NACA) in the US. The NACA formed as a separate organization by breaking away from the American Institute of Accountants.

This status was reinforced when the Society of Management Accountants recommended offering designations to its members in 1939 [Allan, 1982, pp. 29-30]. In order to qualify for

the designation of Registered Industrial Accountant, candidates could meet one of three requirements. They could have ten years or more of cost accounting experience; hold a designation from another Canadian accounting body for five years; or, have five years experience as an industrial engineer. The willingness of the Society to certify members of other professions as cost accountants in part reflects an attempt to co-opt members of the other professions and thereby gain jurisdiction over the work that they perform [Abbott, 1988, pp. 168-172]. It also, recognizes that the cost accountants' qualifications are not unique and a subset of the qualifications of the other groups. This feature undermined cost accountants' claim to a unique jurisdiction.

A plenary speech at the first *Cost and Management* Conference in 1927 reminded members of their connection with financial accounting while calling on them to rise above it:

Within the last fifteen or twenty years there has developed what, in my mind, is a new science, confused, at its inception, owing to the fact that it was an off throw from this older, dignified and splendid science of accountancy, and that is . . . the science of industrial accounting . . . by the use of the word 'accounting', we are tying this new science up to this old science, and we are very apt, unconsciously and unintentionally, to cast reflection on the splendid work which the older science is doing, and I feel deeply that this work is something entirely different . . . We are trying to build an entirely new science under an old name, the application of accounting data to the management of business, and we are - we must divorce ourselves from many of our old precepts and principles [McLeod, 1927].

In later years the probability of the management accountant achieving professional status independently of the public accountant was questioned. On several occasions the Society of Management Accountants raised the possibility of "unification" with the Chartered Accountants. The professional status of management accountants was felt to be at risk and could be assured by becoming a specialized branch of existing accounting associations instead of an independent organization [Coutts, 1958; Editorial, 1957b].

The literature reviewed above shows that management accountants did perceive themselves as being dominated by financial accounting. This relationship had three manifestations:

- (1) Technical subordination – the perceived limits placed on management accountants by the need to integrate/reconcile cost accounts with the general ledger, to fully allocate costs and to use historical cost information;
- (2) Organizational subordination – the perceived marginalization of management accountants as part of financial accounting departments and the asymmetry that a financial accountant could replace a management accountant but not vice versa;
- (3) Professional subordination – the perceived marginal status of the CMA association as a creation of the Chartered Accountants.

Abbott [1988, p. 109] notes that professional dominance/subordination may be either (or both) structural (based on position) or cultural (based on ideas). The data presented above suggest that both forms of dominance occurred in the relationship between financial accounting and cost accounting. Organizational and professional dominance/subordination are based on the financial accountants privileged position within organizations, their linkage to the high status public accountants and the first-mover advantage held by professional associations of public/financial accountants. Technical dominance/subordination is based on the conceptual knowledge underlying accounting, particularly its reliance on historical cost and its status as an internally consistent and articulated set of records.

HOW DID FINANCIAL ACCOUNTING DOMINATE MANAGEMENT ACCOUNTING?

The domination of management accounting by financial accounting is a subtle process. The evidence presented below suggests that management accountants, as a new profession, sought to establish their legitimacy by accepting the standards imposed on them by established organizations in society. Management accountants also found that much of their work during this period was informed by a logic of cost justification rather than cost minimization that reinforced financial accounting priorities over a logic of marginal cost. Finally, management accountants had little intellectual capital available to support their professionalization program and so were dependent, particularly prior to the 1950s, on financial accounting publications (textbooks) for training.

A key mechanism by which management accounting's search for a unique purpose was subverted was by the requirement that cost accounts integrate with the general ledger. This was commonly held out as the *sine qua non* of a good cost system. In this way it was more than simply technical guidance; it was a criteria by which the legitimacy of management accountants' work would be judged. For example, in 1927 R.R. Thompson, the driving force behind the creation of accreditation processes for management accountants in Canada, was asked whether or not cost accounts could exist separately from the financial accounting system. He answered that:

. . . it should be the aim of every cost accountant to link up his system with the general accounts; one should always be cross checked with the other [Thompson, 1927].

Twelve years later, it was recognized that in fact this type of integration of accounts had been accepted as normatively appropriate, if not always technically useful:

It became the pride of cost accountants and of cost accounting writers to build up systems which interlocked with the financial records . . . The effect of this was that attempts were made in all sorts of ingenious ways to divide up the payments of the business [Editorial, 1939].

One explanation for this apparent paradox is that cost accounts were being used primarily to deal with authoritative demands for cost justification rather than market driven demands for cost reduction. For example, this approach is consistent with the demands of government contracting and the attempts by trusts to use cost as a basis for price fixing.¹¹ In this setting the objectivity of costs, as proven by reconciliation with the general ledger, may have been more important than their usefulness in managerial decisions:

During the war businesses engaged on war contracts were obliged to become cost conscious but more from

¹¹ For example, the creation of a Uniform Cost System by the Federal Trade Commission [US Federal Trade Commission, 1916] was recommended as a basis for fixed price contracts [US Interdepartmental Conference, 1917]. For an example of uniform cost systems used by trusts see Powell [1926, Chapter 4]. More specifically in Canada see Willcox, [1939] who called for a Royal Commission to create standards for mine accounting and Wood [1940] on the need for standards in cost-plus contracts.

the standpoint of ascertaining total cost rather than as a measure of efficiency or as a close check on the unit cost of diversified products . . . In order to achieve the best results it is essential that the cost records should be kept in continuous agreement with the general accounting records. . . . It is therefore essential that those concerned with cost accounting should not miss any opportunity of introducing up-to-date and economical methods of cost finding and in so doing help to ensure Canada's future as a great trading nation [Gates, 1947].

Cost and Management reproduced materials from the US that was thought to be relevant to its members. This included an assessment of the growing importance of cost data and the existence of an unfilled niche for the cost accountant. This assessment is based in particular on the introduction of the Robinson-Patman Act that prohibited price discrimination except where it could be justified by differences in costs:

It has often been asserted that the development of cost accounting in the United States owes little to the professional certified public accountant and that even up to the present day he has failed to pay enough attention to this important aspect of accounting... Government regulation of business is bound to include, in an increasingly important degree, this puzzling question of costs [Editorial, 1937].

This is reinforced by observations that government commissions were frequently frustrated by the lack of common cost data across industries. For example, a commission looking into rate setting for public transit facilities tried in vain to get cost data for competitive modes of transportation. A spokesman suggested that:

. . . it would be a good thing for accountants to take up and suggest a uniform system that could be adopted or even made compulsory by the government. If that were done, the Society would have performed a splendid public service [Editorial, 1929].

For a young profession, such explicit guidance from government and trade associations on ways of establishing the group's legitimacy was difficult to ignore. In the same sense, the legitimacy of management accounting and management accountants depended crucially on the support of the public accounting profession. By linking cost accounts to the general ledger, the cost accounting system would receive the "blessing" of the auditor.

The financial statements are the tangible boundary between financial accounting and cost accounting. The audit provides the medium by which the jurisdictional claims of each profession could be transferred inside the organization. Abbott [1988, pp. 56-57] notes that the clarity of a boundary between jurisdictions can have diverse effects on disputes. In accounting, legislative restrictions on practice rights establish a clear boundary between auditing and other accounting tasks. This boundary provides public accountants with a core task from which to expand their practice. Similarly legislated disclosure requirements provide resources for defending the way in which financial information is prepared. For the cost accountant, the clarity of these boundaries meant that a significant portion of their role would be defined by others and subject to external scrutiny.

A further mechanism by which management accounting became subordinate to financial accounting is through the availability of teaching materials. Abbott [1988, p. 232] notes that control over the instruction of cost accounting in universities was crucial to the success of accountants' jurisdictional claims over this field prior to 1925. His analysis did not recognize, however, that instructors from public practice taught cost accounting courses largely from the perspective of inventory valuation for financial reporting. The limitations of current texts were often noted in *Cost and Management*. For example:

Nowhere does an accounting text analyze the problems of management or explicitly develop an accounting method in terms of the accumulation of data needed by management. Accounting texts have been the product of public accountants . . . Hardly believable but demonstrably true, this point of view has so permeated the profession and literature that private accountants and cost accountants are also forgetful of the managerial function of accounting [Goetz, 1941].

The general preoccupation with matters pertaining to financial accounting has resulted in very little attention being paid to the development of administrative accounting. Nowhere is this more apparent than in the dearth of published material on the subject [Editorial, 1959a].

This is a direct consequence of the differential organization of the financial (public) and management accounting professions. Public accounting is a business and generates income that accounting firms can and do allocate to research and development. In addition, financial accounting is a "public good" that

has been subject to regulation to ensure that the quantity and quality of financial information available serves the public interest. Management accounting is a staff position within organizations and, consequently, does not generate funds for its own use. In addition, it is regarded as a "private good" that benefits only the firm in which it is used. The result has been that there is a greater availability of educational materials in financial reporting and auditing than in management accounting.

The subordination of management accounting to financial accounting emerges through the need for a young profession to gain legitimacy by linking their actions to the actions of higher status social actors. The relative emphasis of cost justification compared with cost minimization in the work of management accountants supported the use of cost accounts integrated with the general ledger and tying management accountants to the need for "auditable" results. The subordination of management accounting is also reflected in the need of the emerging profession to rely on the intellectual capital of financial accounting for its academic credibility.

Abbott [1988] uses the dramatic pentad of "act, scene, agent, agency and purpose" as a device for thinking about the legitimization of jurisdictional claims. He suggests that in Anglo-Saxon countries there is a hierarchy with stronger claims to jurisdiction based on acts and purpose, moderate claims anchored in agency, and weak claims based on scene and agent. Cost accounting was contrasted with public accounting only by the location (scene) of practice. Since public accountants and cost accountants dealt with the same clients (agents) and implemented the same techniques (agency), this was a weak basis for legitimating distinct jurisdictional claims. The different purpose of cost and financial accounting would have provided the strongest basis for differentiation but the emphasis of cost accounting on inventory valuation for financial reporting limited the development of this approach.

WERE MANAGEMENT ACCOUNTANTS AWARE OF THE CHANGING ENVIRONMENT?

Lukes' [1974] three-dimensional view of power raises the possibility that a subordinate group can be so imbued with the ideology of the dominant group that it is incapable of forming preferences that do not take the dominant view into account. The question being asked in this section is whether or not management accountants did recognize the potential irrelevance of

the techniques they were implementing. The literature since Johnson and Kaplan [1986] takes for granted that the irrelevance of management accounting techniques was rooted in changing technology (in manufacturing and information processing) and in the changing nature of global competition. If management accountants were aware of the growing irrelevance of their techniques, these contextual issues should have received discussion in the profession.

The discussions in *Cost and Management* leave little doubt that management accountants were aware of the changing business environment. There was also recognition that management accounting must develop independently of financial accounting in order to realize its potential. For example:

An awareness within the profession that accounting data for internal purposes need not be subject to the dictates of external reporting should be encouraged without emphasizing one objective to the detriment of the other [Moller, 1954].

The claim in the book *Relevance Lost* is that management accounting as traditionally practiced became irrelevant due to the globalization of competition and the introduction of automated production technologies primarily since the Second World War. While there may be a difference in degree, similar concerns were expressed throughout the period covered by this study. For example, at the first *Cost and Management* Conference in 1927, the plenary speaker, Professor Sugars, stated:

We are living in an age when the manufacturer has to carefully study the sources of his raw materials, and know what is going on in foreign governments, and in foreign politics; he must know what new railways are being built, the tariff, and what reforms are in contemplation. Today he has to keep ever in view the fierce competition which may come to him from the most remote parts of the Globe; he must consider Russia and China, etc.; the machinery he is using may be superseded by new inventions . . . In certain kinds of manufacturing some substitute may be discovered or invented that will put his product out of business [Sugars, 1927].

In particular, it was routinely recognized that the automation (mechanization) of production would force a reconsideration of cost finding and cost accumulation procedures. For example, in 1936, one author warned that:

The tendency of mechanization will be to lay more and more stress on the importance of the treatment of overhead and we may have to revise our conception of the elements of cost when the element of direct labor assumes . . . a negligible proportion [Clamp, 1936].

The same story was being told in 1961:

It would seem that it is time for cost accountants to take a serious look at their methods and techniques and to assess their value to the business world in the light of the many advances in industrial technology and the newer methods of doing business. One of the fastest changes taking place in industry is the replacement of manual by machine and automated methods of production. This should have great significance to cost accountants. First, it is changing the adequacy of labor as a fair base by which to allocate costs. Secondly, as more costs become relatively fixed in the form of investment and maintenance, the old emphasis on variable costs becomes less important. This is especially true when control of variable costs has reached an advanced stage . . . Thus one can see the emphasis shift from the question of how efficient is laboring to how efficient and productive are plant facilities . . . It would seem in order at this time for cost accountants to take a close look at their techniques and the adequacy of their methods in dealing with current problems. Such an analysis may reveal that we are concentrating on refinements and controls of cost questions that have lost their importance [Editorial, 1961].

After the release of Clark's [1923] "Studies in the Economics of Overhead", there was wide recognition of the need to focus on marginal or relevant costs in decision-making. This suggested to many that cost accounting would have to escape from the confines of financial accounting procedures:

The test is, would any of the expenditure, and if so what part, be saved by refusing the job, shutting down the machine, closing the department or by making any other decision? . . . The restrictions which the double-entry form imposed on cost control and the rigidity which develops from an attempt by bookkeeping methods to analyze past payments is now leading to what appears to be a certain amount of revulsion against artificial analysis . . . The result is that certain writers are turning towards the work on cost theory which economists have done and it seems possible that future

developments in cost accounting may combine to a much greater degree than hitherto a use of statistical method and economic theory . . . Cost is opportunity cost [Editorial, 1939].

. . . knowledge of external reporting requirements by the management accountant is essential since he or she is responsible for the accounting system which generates information necessary to meet external reporting requirements, and also because such information is useful to managers for internal planning and control [Grimmel and Kochanek, 1976].

It was obvious that the use of marginal or opportunity cost concepts would require an information system that would escape from the constraints of the financial accounting system:

Because of the economic and social pressures on individual business concerns they must understand and be able to apply cost and income techniques not always inherent in the debit and credit system. It indicates a flexibility of approach and a sense of vision for which the profession has not hitherto been noted [Editorial, 1954a].

Although the costs of operating two systems may have been an initial obstacle to this approach, it was recognized that changing conditions had also changed the cost/benefit ratio:

Clearly we must have different costs for different purposes . . . As management's problems grow in complexity and competition forces an ever increasing percentage of "right" decisions, the cost of obtaining applicable cost information may be outweighed by the profits available from its use [Cohn, 1957].

In spite of such insights, the overall judgment of management accounting practice was that it had not succeeded in breaking free of financial accounting concerns to establish its unique competence:

We seem to be heading away from our task of providing relevant financial information to management and the resulting gap is being filled by non-accountants. One of the persistent theories that has come out of the developments in computers, analytical techniques and information systems is that all management information can now be handled in a single integrated system... Because of the development of new techniques, the increasing complexity of business, and the increasing velocity of

change, management requires a variety of sophistication in cost data which was undreamed of 25 to 30 years ago... We must reorient our accounting curricula away from the narrow product cost system type of courses to courses which tackle the real problems of cost determination [Dearden, 1968].

The consequences of management accounting relying on the criteria and intellectual capital of financial accounting to develop their craft was recognized by practitioners and academics. The need for multiple systems to reflect different decision needs and the need for system innovation to meet changing business and technological demands was recommended. Management accountants have throughout the period discussed above shown an awareness of the effect of context on the nature of their craft.

CONCLUSIONS

Abbott [1988] shows that accounting, broadly conceived, had gained control of cost accounting by 1925 in a jurisdictional contest with other professions such as statistics, industrial engineering and operations research. He further claims that cost accountants were established as a profession independent of financial/public accounting by this date. Contrary to these claims, Johnson and Kaplan [1986] and others have argued that after 1926, management accounting became subordinate to the demands of financial accounting. In other words, they argue that financial accounting maintained jurisdictional claims/professional dominance over cost accounting such that cost accountants were unable to define cost accounting practice according to the perceived needs of their clients.

The jurisdictional contest between financial accounting and management accounting occurred as the demand for management accounting was growing and practitioners were attempting to create a distinct profession with their own association, literature and jurisdiction of practice. The jurisdictional disputes were thus partly about who would retain control over the expanding definition of the accounting profession and hence be able to provide job opportunities for their members. These disputes were also about the right to define clients' needs and the knowledge base that was appropriate to apply to those needs. This would be reflected in the internal status hierarchy of the broader accounting profession.

I have used commentary in *Cost and Management/CMA*

Magazine to examine the relationship between financial accounting and cost/management accounting in Canada between 1926 and 1986. Evidence was presented to show that management accounting was technologically, organizationally and professionally subordinated to financial accounting in Canada. In other words, management accounting has not been able to develop according to its own preferences because of: (1) the use of financial accounting criteria to judge the quality of management accounting systems, (2) the assignment of management accountants to subordinate positions in organizational units whose primary purpose was financial accounting, (3) the dominance of financial accounting in the market for educational materials, (4) the judgment of the labor market that a financial accountant could replace a management accountant (but not vice versa), and (5) the need for a young profession to gain and retain the support of established interests in society.

There is also evidence that management accountants have long been aware of the need to develop information, independently of the financial accounting system, to help managers deal with problems of changing technology and global competition. On several occasions the profession has announced its break from external reporting concerns but repeatedly practice has not lived up to the promise. In 1957, *Cost and Management* reproduced part of the American Accounting Association report on Management Accounting [Bower, 1957], proudly declaring, "Management Accounting has arrived":

We expect this report to speed up a growing recognition of the need for industrial accountants to emancipate themselves from the shackles which legal, and particularly tax considerations, have forced upon accounting . . . An awareness within the profession that accounting data for internal purposes need not be subject to the dictates of external reporting should be encouraged without emphasizing one objective to the detriment of the other [Editorial, 1959b].

Twenty years later, John Buckley was still forecasting the divergence of financial and managerial accounting:

The twin branches of accounting will increasingly pursue different courses of development . . . Financial accounting is increasingly becoming compliance-based and therefore prone to regulation. But management accounting will never be reduced to a set of rules as long as management can formulate empirical questions... no

book of rules will ever satisfy empirical questions [Buckley, 1977].

The material published in *Cost and Management* demonstrates considerable ambivalence about the relationship between management and financial accounting. On one hand, there is a theme of acceptance of a subordinate role for management accounting as a subsidiary process for generating information for financial reporting. This theme is particularly strong during the early years of the profession due to the role of financial accountants as authors in the journal and their role in the leadership of the Society. On the other hand, there is also a theme that calls for management accounting to emancipate itself from the demands of financial accounting in order to provide management with information to support decision-making and strategy implementation. This theme was present throughout the entire period and was best developed by academics who argued, on theoretical grounds, for the need for different information for different uses.

The ambivalence in the literature reflects the weak basis for the jurisdictional claims being made by management accountants. In the main, cost accountants practiced using the same knowledge base as financial accountants and dealt with the same clients. As long as their practice was restricted to providing information to support financial reporting, management accountants were dependent on the success of that profession for their own success and had little basis for claiming to be an independent profession. Many leaders of the profession recognized the need to redefine the purpose of management accounting as part of the firm's strategic decision-making in order to provide a basis for the profession's claim to an independent jurisdiction. The literature thus treads a delicate line between maintaining the support of the established accounting bodies while providing management accounting practitioners with a new vision of themselves on which to expand their jurisdiction.

There is also evidence that rather than diverging, financial and management accounting may converge toward a view of the firm inspired by the current emphasis on firm-value [Berliner and Brimson, 1988]. The relationship between management and financial accounting is thus the site of an unresolved jurisdictional dispute [Abbott, 1988]. It remains to be seen if the current attempt to develop management accounting as an independent decision technology will succeed. Put another way, it is not clear that the institutional forces that have shaped the development of

management accounting to date have changed sufficiently to put the discipline on a different evolutionary track.

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INTERFACES

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HENRY RAND HATFIELD AND ACCOUNTING BIOGRAPHY

Focal text: S.A. Zeff, (1999), *Henry Rand Hatfield: Humanist, Scholar, and Accounting Educator* (Stamford, CN: JAI Press, 1999).

Abstract: The paper reasserts the importance of biographical research in accounting history by reference to Stephen Zeff's book on Henry Rand Hatfield. It illustrates that depth studies of individual actors offers compelling insights to the history of accounting theory, practices and institutions. Biography also has the capacity to reveal insights which have a bearing on modern day issues.

THE IMPORTANCE OF BIOGRAPHICAL RESEARCH IN ACCOUNTING

We live in a world increasingly interested in its past. Public television in several countries offers a regular diet of historical programs, and cable television companies provide a channel devoted exclusively to what its producers believe to be history. Shelves of bookstores groan with the weight of newly-published historical texts and novels. Historians combine university employment with part-time careers as media-based presenters on wind-swept moors and ramparts or in water-logged archaeological trenches. The brightest and the best of graduating classes in history are full-time researchers who can write best-selling historical texts. Thus, at least in the developed countries of the English-speaking world, an obvious appetite for history exists despite increasing concerns about the quantity and quality of history education in schools.

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In the more specific world of accounting, however, we find conflicting signals about the state of its history. Despite a relatively thriving but small community of accounting historians, the subject does not appear to have a serious impact on the histories of professions and business. Accounting history is not taught in schools and is rarely contained in the accounting curriculum of universities. Indeed, in the United States where there are thousands of degree-awarding institutions, accounting historians have become an endangered species. Corporate scandals such as Enron, WorldCom and Xerox are criticized, debated and investigated by individual accountants with apparently very little sense or understanding of accounting history. As the old adage goes, history repeats itself.

Paying attention to its history is a major part of the solution to a problem and paying attention to the background and role of individual actors is a more specific solution. The need to study individuals in history is a matter that historians are increasingly recognizing [Jordanova, 2000, pp. 41-42]. Biographical histories not only provide insight, context, and explanation for broader historical issues. They are also popular with readers of history. A biography is a window into a past life and, depending on the depth of research, helps to satisfy our curiosity about fellow human beings. Our instinct for voyeurism means that we are interested not only in great deeds and events, but also in personal habits and weaknesses. Modern biographical research tends to lift the stone to find out what lies beneath it. It observes the privates and lance corporals of the army, as well as its generals and marshals. A recent example illustrates this argument. There have been many biographical studies of Arthur Wellesley, Duke of Wellington and his military successes and failures against the armies of Napoleon Bonaparte. However, thanks to the research of Urban [2001], we now know of Major George Scovell who was responsible for breaking the communication codes of Napoleon that gave Wellington a decisive advantage in his battles against the French in Spain in the early 1800s.

The same should be true of accounting history. In order to explain and understand accounting practices, developments, failures and successes, we need to know more about the accounting actors who were present. For example, in the development of the public accountancy profession in the United States, the clashes over auditor independence rules between the centralist American Institute of Accountants and the devolved American Society of Certified Public Accountants is explained, at least partially, by the enmity between George Oliver May of Price

Waterhouse & Company and Eric Kohler of Northwestern University [Previts and Merino, 1998, p. 244]. Researched biographies of these men in relation to the issue of auditor independence would not only better inform us about the history of American public accountancy but also would provide lessons for us when dealing with the same issue in 2002 as a consequence of Enron *et al.*

This is not to suggest that accounting history has been devoid of biographical research. Indeed, biographies are a regular part of the accounting history literature. For example, in the newly-founded *The Accounting Historian* in 1974, the Academy of Accounting Historians had a series of biographies on leading researchers such as John Bennett Canning and DR Scott. Stewart [1977] published brief biographical sketches of the earliest Scottish chartered accountants in the second half of the 19th century. Kitchen and Parker [1980] researched six leading thinkers and writers about accounting and auditing practice who covered a period from 1841 to 1954. These biographies, however, were relatively brief and antiquarian in their nature in the sense of concentrating on the traditional history model of names and dates. More recently, the accounting history literature has contained more personalized accountants of the less well-known contributors to accounting (e.g. Carnegie, Parker and Wigg, 2000; Lee, 2002).

Biography remains a very small contribution to accounting history. In a listing of accounting history publications in 1999, Anderson [2000] reveals that Zeff [1999] was the only biographical study of that year. It is also the subject of this commentary.

ZEFF ON HATFIELD

Henry Rand Hatfield was the first full-time professor of accounting in an American university. In 1904, following doctoral studies and faculty appointments in political economy at the University of Chicago, he was appointed Associate Professor of Accounting at the University of California at Berkeley. At Berkeley, Hatfield became known as the “dean of accounting teachers” – a title signifying his considerable influence in the United States as an academic accountant in the first half of the 20th century. Despite this lofty position in academia, there has been no extensive biography of Hatfield until Professor Stephen Zeff of Rice University published his text in 1999. The wait has been worthwhile and the book is a significant publication. Not only does it provide accounting historians with an in-depth analysis

of Hatfield's life and work, but it also gives clear insight to the post-foundational history of the American accountancy profession. This is exactly what biographical research should do. It uses the individual as a window on broader events and reveals the importance in the latter of social relationships as explanations [Bearman, 1993].

Zeff's research on Hatfield began in 1963 when he was encouraged by Professor Maurice Moonitz at Berkeley to look at the Hatfield archive located there. This initial exposure led to a project that lasted 37 years - only a few years less than the length of Hatfield's employment as an academic. The research is meticulous and the opinions and assessments objective and considered. The text is eminently readable and supported by detailed citations and a voluminous index. Hatfield's published and unpublished papers are reproduced, and the distinguished British economic and accounting historian, Professor Basil Yamey of the London School of Economics and Political Science, contributes a thoughtful piece on Hatfield as an accounting historian. The book won the 2001 Hourglass Award of the Academy of Accounting Historians.

The structure of the book is relatively straightforward. It has a chronology that covers the first four chapters. These are followed by chapters dealing with Hatfield's contributions, persona, and written work. The original text covers 248 pages and is accompanied by 46 pages of footnotes - of which there are 747. The index amounts to no less than 43 pages. Despite this considerable detail, the Hatfield story is told by Zeff in a way that allows the reader to be simultaneously informed and entertained. The footnotes, for example, are necessary in a serious historical study but have been relegated to the end of each chapter to provide accessibility without diminishing readability.

The book is an excellent illustration of how two forms of historical research can provide value in excess of what would have been possible from a single methodology. Zeff used the traditional form of accessing archives at various academic institutions including Berkeley, Chicago and North-Western. But he also interviewed numerous Hatfield family members, students and colleagues. The result is that each research method has informed the other and Hatfield, the man, is revealed as much as Hatfield, the name. In particular, Zeff has identified clearly the influence of Hatfield's family background in the Methodist Church on his approach to accounting teaching, research, and practice. For example, the contemporary concern with the compatibility of wealth creation and morality was not an issue for

Hatfield. Both could and should co-exist as allowed by Methodist theology. In addition, Hatfield believed that the purpose of accounting education was to get potential practitioners to think about accounting practice and its effects rather than to inculcate a particular set of accounting or bookkeeping techniques. More specifically, his academic purpose was to influence accounting practice rather than impress university colleagues. He was an intellectual who served the profession of accounting. Zeff describes him as a renaissance man.

HATFIELD'S CONTRIBUTION

Despite its considerable readability, Zeff's book on Hatfield is not easy to review because of its breadth and depth. The range of topics is vast and is perhaps one reason why it took so long to produce. Hatfield was a unique member of the accounting profession and very different from the academic model currently seen in doctoral programs in the United States and elsewhere. It is doubtful if he would have been comfortable in a world of relatively meaningless "accounting" issues being thrashed to death statistically by economists masquerading as accountants. He certainly would have been startled at the existence of misreporting situations such as Cendant, Enron, Sunbeam, Waste Management, WorldCom, and Xerox, and the possibility that public accounting firms such as Arthur Andersen and PriceWaterhouseCoopers could have permitted them to exist. His Socratic method in the classroom was intended to nullify that possibility. Hatfield believed that accountants should be capable of thinking about the logic and relevance of the practices they used, advised or audited. He did not provide rule-based solutions to accounting problems. Instead, he put students in a position to observe the idiosyncrasies of accounting systems. He also worked with practitioners to eradicate problems. At heart, he did not believe in the notion that accounting existed as a discipline separate from others such as economics or law. He perceived accounting as a practical function with problems that could only be resolved by thinking practitioners. Thus, he sought integration of accounting education and practice and fought against any attempt to separate academics from practitioners. This approach is entirely consistent with his Methodist upbringing. Despite the fact that Hatfield was one of the founders of the academic organization that is now the American Accounting Association, and its President in 1919, he delayed by several years the initiation of *The Accounting Review*

and had little time for accounting research. In the years when he was in a position to do so, he did not seek to expand the accounting faculty at Berkeley and had only one doctoral student – who never published.

Hatfield published less than might be expected from someone with such a long-standing national and international reputation. He wrote many papers that were not published and appeared to prefer to inform by personal presentation at conferences and seminars. It is certain that he would be surprised by the “publish or perish” principle of the current American accounting academy. As Zeff points out on a number of occasions, Hatfield was a scholar who was happiest when he was informing students, practitioners and colleagues about the views of others rather than his own. In this respect, he was very different from the academics that followed him such as William Andrew Paton, John Bennett Canning, DR Scott, Kenneth F. MacNeal, Ananias Charles Littleton, Richard Victor Mattessich, Raymond John Chambers, Yuji Ijiri, and Robert R. Sterling. The so-called golden age of normative accounting research in the 1950s and 1960s is not something with which Hatfield would necessarily have been comfortable. The setting up of alternative “straw men” of accounting in order to unveil a preferred solution to an accounting problem was not the Hatfield approach.

Zeff has set out clearly Hatfield’s distinctive contributions to accounting thought. First, accounting is not just a series of techniques for use in a designated function. It is also an academic subject that is dependent on other subjects such as economics and law, and is worthy of a place for study at universities. In this respect, Hatfield led the way in establishing an academic accounting community that was capable of competing for scarce university resources. Second, because accounting is technique-driven, it should be taught rather than researched. Hatfield did not appear to believe that the credibility and reputation of accounting as a university subject depended on the production of research output to impress university sponsors and managers. Third, good accounting practitioners are those who can think about the effects and consequences of particular practices – a characteristic apparently lacking in recent corporate disasters such as Cendant, Enron and WorldCom. Fourth, the role of accounting academics is to bring together current thinking on accounting and ensure that it is relevantly integrated into practice. Again, this is totally at variance with contemporary contributions to accounting research that are increasingly inaccessible to most academics far less practitioners.

According to Zeff, Hatfield did not believe in forcing a solution to an accounting problem on practitioners. Instead, he believed that the credibility of academic contributions to accounting practice was best maintained by pointing out the idiosyncrasies of specific accounting rules (such as the “lower of cost or market” rule) and working with influential practitioners to effect change. Zeff believes that Hatfield’s resistance to accounting research was due to his failure to observe changes in accounting. However, an alternative hypothesis is that Hatfield believed that accounting academics lost their objectivity in analyzing accounting problems when they also advocated specific solutions. Perhaps the truth of the matter is somewhere in the middle. Certainly, Hatfield’s dominating approach meant that the early development of the American Accounting Association was limited to teaching and its research influence was slow to develop.

Hatfield’s influence on individuals was also problematic. He rarely worked with others on projects, and his one major co-authored work with Thomas H. Sanders and Underhill Moore in 1937 for the American Institute of Accountants was not a success. Hatfield had only one doctoral student during his academic career and his classes were typically small because of student fears that his standards were too high. Hatfield offered courses that were either never run or had short lives. He frequently argued with accounting colleagues and appeared to have better relations with colleagues in other subject areas. Certainly the main influences in his academic work were economic philosophers with European connections rather than fellow accounting academics in the United States.

HATFIELD’S PLACE IN HISTORY

Irrespective of these “oddities” in Hatfield’s career, it is difficult to deny his place in accounting history. As the first American accounting academic he was always going to have a niche in the subject’s pantheon. But his clear intellectual approach to the identification and analysis of accounting problems, and his constant advocacy of the need for accounting students to think about practice, are his more long-term contributions. For this reason, it is prudent to suggest that current accounting academics – whether researchers or not – should be encouraged to read Zeff’s biography of Hatfield. Reading it reminds accounting teachers and researchers that their role is to support practice and practitioners by producing future accountants who can

think and integrate research with practice. Zeff deserves to be congratulated for providing this opportunity to arrest the current decline in the relevance of accounting research and teaching. He also has our gratitude for demonstrating that biographical research in accounting history can inform a current debate on accounting issues.

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INTERFACES

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THE HISTORIAN AS AUDITOR: FACTS, JUDGMENTS AND EVIDENCE

Focal texts: R. Evans, *In Defence of History* (London: Granta, 1997); K. Jenkins, *Re-thinking History* (London: Routledge, 1991), *On "What is History?"* (London: Routledge, 1995), *Why History? Ethics and Postmodernity* (London: Routledge, 1999). C. B. McCullagh, *The Truth of History* (London: Routledge, 1998).

Abstract: Both history and auditing are "evidence-based" practices. Accounting historians, who may be skilled in audit as well as historical research, may have special insights into how sources provide evidence to support judgments and opinions. Considerations of evidence by theorists of history may be of relevance to theorists of auditing, and vice versa. The work in this area of recent historiographers Richard Evans, Keith Jenkins and Behan McCullagh is reviewed. McCullagh's claim that fairness as well as truth is central to making historical judgments is shown to resonate with the work of auditors and hence is of particular significance to historians of accounting.

INTRODUCTION

"In practice most historians assume that when their statements about the past are adequately supported by available evidence, then it is reasonable to believe them true. Precisely what

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constitutes adequate support is hard to say" [McCullagh, 1984, p. 1]. Debates about evidence are common in the historical literature, and have entered the arena of historical accounting research. For example, one of the key issues in the recent discussion on the emergence of cost and management accounting in *The Accounting Historians Journal* [Hoskin and Macve, 2000; Boyns and Edwards, 2000; Tyson, 2000] is the extent to which evidence exists that supports or contradicts particular historical interpretations. Within this debate, both general claims about the ability of evidence to resolve theoretical issues and more specific claims about the sufficiency and cogency of particular pieces of evidence offered in support of historical statements are presented and rebutted.

Historians have long had to struggle with the problems of what might count as an acceptable source (until relatively recently, for example, oral material was considered to provide only poor and unreliable evidence [Hammond and Sikka, 1996, p. 82]), how reliable might any individual source be, how to deal with multiple and possibly conflicting sources, how many independent sources were enough (and when were sources truly independent) and to what extent more general statements could be justified on the basis of particular sources. By the end of the 19th century, a substantial body of techniques of source criticism and comparison had developed, although the precepts propounded by theorists searching for a scientific basis to historical study are by no means uncontroversial (Howell and Prevenier, 2001, p. 70). Some precepts rely on the exercise of the individual historian's "common sense", and while this may well be highly refined as a result of extensive practice, it is not, in terms of logic, a firm foundation for historical judgments.

The debate over the nature of historical evidence, and the way in which evidence mediates between facts and judgments, is still current within the historiographical literature. In this paper, I refer to the recent contributions of three historical theorists (Richard Evans, Keith Jenkins and C. Behan McCullagh) to shed light on how historians use traces of the past as evidence in support of their statements of fact and their judgments. Accounting historians use accounting records as evidence of past practices and to help form judgments about the nature and role of accounting in earlier periods. Accounting records are also used as evidence in one of the main activities of the professional accountant – auditing. Parallels exist between auditing and history-writing, and insights into the nature of evidence in one activity are informative in the context of the other. At a more

mundane level, the auditor's training provides knowledge of how accounting systems operate and the relationships between different types of document and record, which are potentially valuable in using archives effectively, while the historian's training in both use of sources and the extent to which they adequately support judgments carries over usefully into the auditing arena.

The present paper is organized as follows. In the next section, I put the significance of evidence into a broader philosophical context by viewing evidence as an aspect of epistemology. This is followed by a section in which the processes of historical research and criticism on the one hand, and financial reporting and auditing on the other, are compared. Reference is made to the recent work of the historian Richard Evans, principally his historiographical polemic *In Defence of History* [1997]. I then turn to the writings of Keith Jenkins. Through his books *Re-thinking History* [1991], *On "What is History?"* [1995] and *Why History? Ethics and Postmodernity* [1999], and his edited collection *The Postmodern History Reader* [1997], Jenkins has provocatively challenged more mainstream views of the historian's relationship with evidence, indeed the nature of historical evidence itself, in ways that raise issues for the conventional understanding of evidence in the audit context. The arguments of Jenkins are contrasted with those of C. Behan McCullagh, whose *The Truth of History* [1998] explicitly explores the extent to which historical descriptions can be "true and fair", and thus suggests a direct analogy between the task of the historian and that of the auditor. In conclusion, I draw out the extent to which the analogy between auditing and history proposed in the paper provides insights into our understanding of the nature of evidence in either context.

EVIDENCE AND EPISTEMOLOGY

In any practice that claims to make or critique statements about the way the world is or was, two fundamental epistemological questions arise. The first of these is: "by virtue of what factors are our statements true or false?" The second question is: "when is it reasonable to believe statements to be true or false?" These are not necessarily the same question, as it is possible to conceive of situations where it is reasonable to believe a statement to be true, but the statement is in fact false. In history, for example, all sources extant at a particular date may support a particular historical statement, but later historians may gain ac-

cess to material that not only contradicts the earlier sources but suggests that they are not to be relied on. More generally, if we try to determine whether beliefs are reasonable using a mechanistic approach, we will have to use a finite set of criteria, but so far philosophers have been successful in constructing statements that satisfy all the criteria but are nonetheless false. This problem of determining a completely adequate foundation for justification parallels that for deciding whether we can be said to know some proposition or statement, where philosophers have made a sport of developing counter-examples to any attempts to explain knowledge by reference to criteria such as justification, belief and truth [Lehrer, 1990, pp. 16-17, following Gettier, 1963].

In our everyday lives, we believe certain statements, and deny others, for a wide range of reasons, and both the statements we believe, and our grounds for belief, differ from one person to another. Even though our personal standards for what philosophers call "justification" differ, we expect common standards within arenas of shared activity, particularly within professional domains involving the making of statements. The worlds of the historian and the auditor are two such domains. In recent years, both historians and auditors have come under challenge. This challenge does not relate to particular instances of inadequate history or auditing, although there have been plenty of claims about both of these. The problem goes deeper: it is argued that historians can never be completely justified in believing that their accounts of the past are true, while auditors can never be sure that their audit opinion (that financial statements "fairly present" or "give a true and fair view of" the underlying financial position and performance of an entity) is valid. Michael Power in particular has pointed out how auditing, rather than being a "derived and neutral activity" [Power, 1996, p. 289], "actively constructs the legitimacy of its own knowledge base and seeks to create the environments in which this knowledge base will be successful" [Power, 1996, p. 291]. If auditing is essentially a constructed activity, then the criteria by which auditors feel justified in asserting their audit opinions are themselves constructed rather than given, and moreover are located in history rather than being ahistorical.

In the contemporary audit, the audit opinion is firmly grounded in the process of gathering evidence. "Auditors should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion" [SAS 400.1: APB, 1995a, para. 2]. This begs the questions of

what is meant by “sufficient”, “appropriate” and “reasonable”, as well as the processes by which the auditor draws conclusions from the evidence and derives the audit opinion from the conclusions. Auditing Standards, textbooks and professional literature address these concepts, aiming to provide a practical response to the question: “what must an auditor do to be justified in expressing an opinion that financial statements give a true and fair view?” If no absolute criteria of justification exist, the criteria developed within the context of audit practice will always be open to external challenge, and some audit judgments may fail such challenges, especially where the challenges make use of hindsight. Even an audit properly conducted in accordance with current best practice could fail to give rise to an adequately justified opinion, if best practice is retrospectively found to be inadequate by some external critic such as a court of law.

Recently, Alexander [1999] has attempted to provide a “benchmark” by which the adequacy of published financial statements (rather than audit opinions) may be judged. “Our question, in its simplest form, is: what would make, and how can we go about establishing what would make, adequate financial statements?” [Alexander, 1999, p. 239, *emphasis in original*]. Alexander suggests three broad approaches to adequacy. A preparer of a set of financial statements might assert that the statements are adequate because they satisfy a general fundamental concept (for example, they “give a true and fair view”), or that they have been prepared in accordance with a set of concepts, rules or conventions (a “statement of principles”) consistently applied, or that they comply with a comprehensive and detailed set of accounting rules in all particulars. The auditor judges the preparer’s assertion of adequacy. At the same time, the auditor’s judgment must itself be adequate by reference to criteria of justification within auditing. These notions of adequacy are likely to differ from those applying to financial statements, giving rise to the situation that an auditor’s opinion on a set of financial statements may be adequately justified even though the statements themselves do not satisfy the criteria for financial statement adequacy.

The relationship between the financial statements of an entity and the underlying financial transactions of the entity and the events that have affected the entity’s financial position and performance is a complex one. It is fundamental to financial statements that they do indeed stand in some relationship (sometimes described as “reflecting” or “representing”) to real

transactions and events. The audit report comments implicitly on the extent to which this relationship is manifested. Similarly, most (but, as we will discover, not all) historians believe that it is fundamental to historical statements that they stand in some relationship to real events. In order to convince readers that their statements are adequately justified, historians will present evidence in support of their statements, while auditors will (or at least should) be in a position to present sufficient appropriate evidence to back up their opinions. In the next section, I examine more closely the role of evidence in historical research in comparison with auditing.

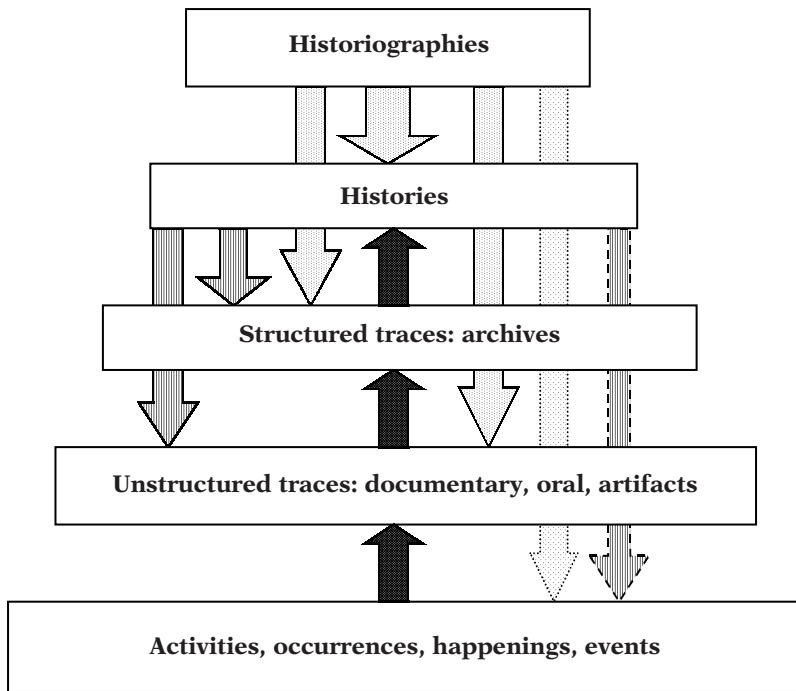
AUDITORS AND HISTORIANS

When historians want to discover what happened in the past, they feel constrained to find evidence which will enable them to draw inferences about the people and events which interest them. This constraint seems perfectly reasonable, because it has long been thought both the necessary and sufficient means of discovering the truth about the past [McCullagh, 1998, p. 20].

As McCullagh notes, statements made by historians have traditionally been considered as requiring a grounding in evidence to be admitted into the set of statements that can potentially be true. Without evidence, the historian is free to speculate, but such speculations cannot be claimed as true in the sense that they represent *justified* statements about the past. Historians are not limited to a mere recitation of their evidence: they may use the evidence as the basis for drawing conclusions, so long as the latter are adequately argued from the evidence. Of course, what counts as an “adequate argument” may be open to debate, and what is accepted as such by the majority of practising historians may change from period to period [Evans, 1997, pp. 93-94].

In Figure 1, the process of historical research is represented schematically. At the bottom, forming the foundation for writing history, are the various occurrences that interest the historian. The historian will sometimes have direct personal experience of certain occurrences, and may actually have participated in them, but in general the historian is reliant on the traces that the occurrences have left: the documents and artifacts, and the memories of participants that can be obtained through oral testimony. The historian’s evidence is in general some form of record, but not every occurrence will be recorded, while some apparent records may not reflect actual occurrences (they may

FIGURE 1
The Process of Historical Research



have been created in error or as a deliberate attempt to misrepresent what had occurred). To the present-day professional historian, such primary sources form the basis for historical narratives and interpretations, and gaining an understanding of where potentially relevant records may be found, how they may be read, and how reliable particular records may be in providing evidence of what happened, form a central part of the training of historians [Black and McRaid, 2000; Howell and Prevenier, 2001; Marius, 1999]. In practice, the primary records utilized by the historian may have been put into structured form, usually in archives but also in published volumes.¹ While the archiving

¹ The latter often applies in the case of original documents that present-day scholars will find difficult to read without specialist training. Hence many medieval documents have been transcribed and historians may tend to use the transcriptions rather than the originals (for example, Noke [1981] in his study of medieval English manorial accounts, uses several sets of transcribed records). In his study of the records of the East India Company, Bryer [2000] makes use of the *Calendars of State Papers*, which transcribe, and on occasion summarize, original documents.

process introduces structure and order to primary documents, it may lead to the loss of certain documents that do not fit the archivist's scheme of arrangement, or for which the archivist may deem that space is not available. Archiving may provide an opportunity for documents to be deliberately retained or removed in order to emphasize certain aspects of the past and suppress others.

The upward-pointing arrows in Figure 1 indicate the increasing selectivity and abstraction in the move from the original occurrences to the historians' narratives and interpretations. At each stage, detail may be lost and agreement between the documents and the underlying events may be blurred. The vertically-striped downward-pointing arrows in Figure 1 show the extent to which histories are based on the underlying evidence. In practice, much historical writing is grounded in the archive. Historians' professional reputations may be made by locating hitherto unused material that has been ordered in an archive, or even unstructured material (whether this is stored in an archive or not).² Access to the actual events in which the historian is interested is a more problematic matter. The shadowy arrow linking histories with occurrences is intended to indicate that, on occasion, the historian has personal knowledge of and experience of events. But even here, the experience is mediated through the historian's memory, and in general this can be only a minor and accidental source of historical evidence.

In Figure 1, the topmost box, labeled "historiographies", indicates the extent to which histories are based not only on sources documenting the original events but also on the work of other historians. It is rare for a historian to be the first to investigate a particular set of occurrences, and many histories contain critiques (implicit or explicit) of the work of prior historians. Evans [1997, pp. 93-94] suggests that the move from a heavy reliance on the work of "chroniclers and other secondary or derivative sources" to a "practice of always going to the pri-

² Evans [1997, pp. 87-88] tells of how, in working in the Hamburg state archives, he came across a catalogue entry for "Worthless Reports". On investigating, he found that this entry represented some 20,000 unclassified police reports from the 1890s and 1900s, which provided a wealth of information about the thoughts of "rank-and-file socialist workers . . . about almost every conceivable issue of the day". Evans notes that the records had survived by luck rather than conscious decision, and that the records became significant as evidence of the past only when historians became interested in the history of everyday life rather than of political organisations.

mary or original sources" in the early-19th century has been widely associated with the emergence of history "on a professional or scientific basis". Each history does not stand alone, based entirely on original sources. Rather, histories form an ongoing "conversation" in which a new contribution may be offered as "a useful corrective to earlier historical interpretations" [Evans, 1997, p. 88]. The basis of such a corrective may range from hitherto unknown documents or other traces of the past to new interpretations of a common set of evidence. It may even involve a painstaking demolition of the historical claims of another writer.³ In order to undertake such critiques, historians need to appeal to standards of historical research and argumentation as well as to primary and secondary evidence. These standards change through time, and in their judgments of colleagues and predecessors, historians need to be careful not to suggest that previous historians were incompetent when, by the standards of their own times, they were justified in reaching their conclusions (for example, if they used all the evidence then available, or at least everything that then *counted* as evidence).

The "historiographies" box, therefore, symbolizes the extent to which historians express opinions on the work of other historians. Although such opinions may be embedded within more substantive works, they may also stand separately, in the form of criticisms, reviews or surveys. Historical critics will use their own knowledge of the archive (and of unstructured primary sources) to challenge or endorse the use of source materials by other historians (this is indicated by the striped downward-pointing arrow in Figure 1), and they can make criticisms on logical grounds, or on the basis that conclusions are not adequately supported by the evidence adduced. In Figure 1, the dependence of historiographical criticism on histories and sources is indicated by downward-pointing arrows, and again the shadowy arrow connecting historiographies with occurrences indicates the more problematic nature of historiographers' access to these.

Historical research is not simply the identification, transcription and summarization of original sources as statements of "historical fact". The writing of history involves the making of

³ Evans [2001] himself provides one of the leading recent examples of this in his debunking of the use of historical evidence by the holocaust denier David Irving, arising out of Evans's work as the leading defense expert witness in Irving's unsuccessful libel action against Deborah Lipstadt (author of *Denying the Holocaust* [Lipstadt, 1993]) and Penguin Books.

judgments. These take various forms, such as imputations of motive to historical actors, identification of causes and consequences, and explanations of historical processes in terms of theoretical concepts and constructs. These judgments may be explicitly stated and supported in historical writings, or they may be implicit in the way in which the historian selects from sources and structures the historical narrative. How historians characterize the relationship between fact and judgment, between source and interpretation, depends on perhaps unarticulated philosophical positions. Traditional historians see "interpretation emerging from the sources and finding a form of literary expression appropriate to the truth of the argument and the material" [Evans, 1997, p. 101]. Such historians seek to give their readers the "best" explanation possible of the events they study, and various canons of best practice have developed among professional historians (see, for example, McCullagh [1984]). These canons presuppose a core belief about the relationship of historical traces and the underlying occurrences that they purportedly document: that, in general, and allowing for some degree of error, the traces faithfully represent the underlying occurrences. This is not to suggest that historians are naïve about sources: "There is a quite remarkable degree of 'craft' agreement among most practising historians, whatever their varied theoretical orientations, that certain searching questions must be put to and about the sources" [Fulbrook, 2002, p. 101]. The "craft" debate over how sources are to be analyzed and assessed stands alongside more conceptual issues relating to the extent to which historians' judgments and interpretations (for example, the narratives in which historical facts are embedded) are found in history or constructed by historians, and whether "metajudgments" are possible as to whether the judgments of certain historians about particular occurrences and events are better than those of others.

Just as the historian's task is to make statements that are believed to be true, that are grounded in evidence but built up through argument, so the auditor works with evidence and argument to make judgments. Alex. Arthur has recently proposed that "the audit argument (including the elements of the argument that support the evidential statements) is a more important focus of fundamental audit enquiry than the evidential process itself" [Arthur, 2001, p. 263]. Traditionally, much weight had been placed by audit theorists on the nature and quality of audit evidence, but Arthur argues that theorists, and practitioners, tend to adopt a "common-sense" epistemological frame-

work. This involves a naïve correspondence theory of truth, where a statement is true because it states what is the case (and “what is the case” is understood directly and unproblematically), and may appeal to legal or scientific notions of evidence and inference.⁴ Auditors’ attempts to clarify the status of evidence and the processes of making inferences may take the form of assertions (see, for example, SAS 400 [APB, 1995a]).

FIGURE 2
The Process of Financial Reporting and Auditing

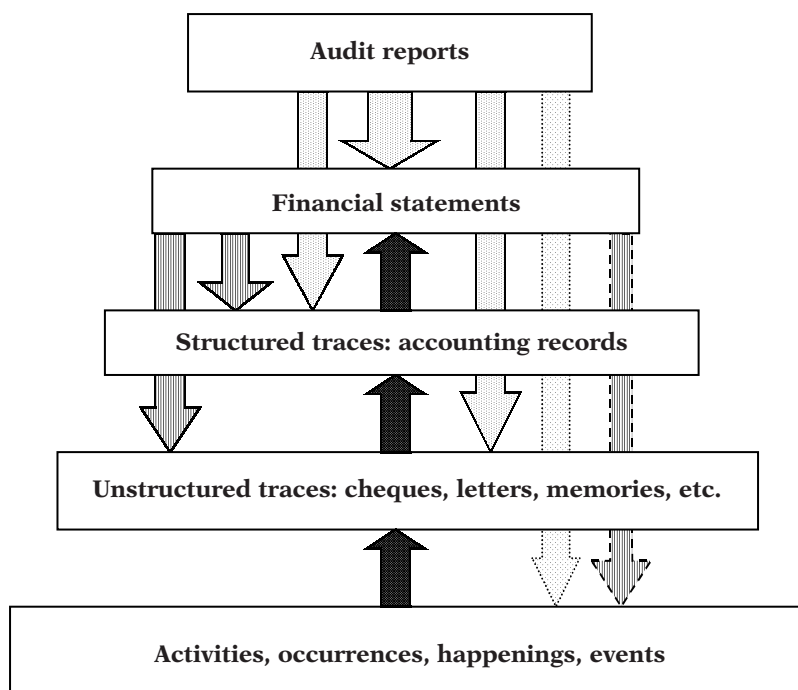


Figure 2 has been constructed to bring out similarities between the audit process and the process of historical research. The upward-pointing arrows show the process by which the underlying transactions and events undertaken by and affecting an entity are transformed into the entity’s financial statements. Transactions and events are evidenced by unstructured traces, such as invoices. These will normally include all details about a

⁴ This is an argument developed by Power [1992] for the use of statistical sampling techniques in auditing. McCullagh [1984, ch. 3] considers the use of statistical inference in arriving at historical statements.

transaction that the entity considers relevant, although they may need to be supplemented by other documents and by human memory. This closely parallels the situation for the historian, who is likely to wish to triangulate the information about occurrences and events given by one trace against that given by other traces. Unstructured traces are summarized in more structured form in the entity's accounting records. Much detail is omitted (for example, the records may show only an invoice number and total amount, not the goods or services provided) or summarized (for example, only the daily total for cash sales may be recorded, rather than the individual sales transactions). Finally, the financial statements are prepared from the accounting records (with some input from knowledge of external and internal events that may have an impact on numbers emerging from the accounting records, such as doubt about the collectibility of an account receivable – hence the downward-pointing arrows leading from the box representing financial statements in Figure 2). Many present-day accounting systems are designed so that those charged with preparing the financial statements may do so on the basis of balances and totals automatically generated within the accounting records, and thus do not need to make much if any reference to the underlying “primary” evidence of transactions and events. Within these systems, a central purpose of the accounting records is precisely to facilitate the preparation of the financial statements.⁵

In Figure 1, the upward arrows did not go all the way up to the topmost level. This indicated that historiographies (in the sense used in this paper) were not summaries of histories but rather were opinions about histories. In Figure 2, the upward arrows similarly do not go all the way to the topmost level, the audit report. The contemporary audit report is an opinion about the financial statements, not a summary of the statements. The role of the auditor is not to prepare the financial statements, and corporate law makes it clear that preparation is the responsibility of the corporate officers (in the UK, the directors). In practice, auditors may become involved in preparation work, but this leads to problems of independence, as auditors are then required to give an opinion on financial statements for which they are partially responsible. Figure 2 shows the parallels be-

⁵ In earlier periods, financial statements were less significant, and were sometimes by-products of a practical need to close an old ledger and open a new one [Yamey, 1970].

tween the audit process and that of historical research in the shape of the downward-pointing arrows. The main source of evidence on which the audit report is based is the financial statements themselves. With the increasing use of analytical review [Dunn, 1996, pp. 133-135; Gray and Manson, 2000, pp. 333-343; Porter *et al.*, 1996, pp. 165-169; SAS 410, APB, 1995b], much audit work concentrates on ensuring the internal coherence of the financial statements, rather than their correspondence with some external state of affairs. Auditors examine the accounting records as well, but to a lesser extent the primary documents and other traces evidencing underlying transactions. Reliance on systems of internal control allows the contemporary auditor to assume that, as long as the control system may be taken as reliable, the entries in the accounting records, and the documents underlying these entries, accurately reflect real transactions. With the increasing use of computer-based accounting systems, the traces left by transactions may exist only in virtual form, or may be destroyed once they have been reflected in the accounting records.

As was the case in Figure 1, there is a shadowy arrow in Figure 2, linking the audit report to the underlying transactions and events. Auditors rarely observe routine transactions (and the evidential status of observation is open to question, as the presence of the auditor may distort the behavior of those involved in the transaction, making it unrepresentative of transactions in general). The auditor will be aware of external events that may affect entities in general, such as natural disasters, changes in tax and interest rates, and insolvency of major businesses, and can bring this awareness to bear on a particular entity's financial statements. The auditor rarely has direct personal access to the underlying activities and occurrences that feed ultimately into the financial statements.

The audit process is, as Gray and Manson [2000, p. 333] note, a "search for evidence". Auditing standards, as well as audit theorists, provide criteria for judging the status of different types of evidence.⁶ Some types of evidence, and evidence from particular sources, will be considered more reliable than other types of evidence. Auditors' judgments as to the reliability of evidence are quite similar to those made by historians. Auditors start from the presupposition that the accounting records

⁶ See, for example, SAS 400 *Audit Evidence* [APB, 1995a], and, for a summary and review of the theoretical literature, Arthur [2001, pp. 252-255].

have been compiled with the basic purpose of accurately recording genuine transactions so as to facilitate the preparation of the financial statements. Although auditors will assess the extent to which the internal control systems are operating effectively, the presumption is that this is the case, just as historians presume that primary documentary records correctly record genuine occurrences. These presumptions may be rebutted if other evidence suggests that they are difficult to support, but at least auditors have both longstanding judicial authority and more recent support in auditing standards for their approach.⁷ The responsibility of the auditor has been stated as being to “carry out procedures designed to obtain sufficient appropriate audit evidence . . . to determine with reasonable confidence whether the financial statements are free of material misstatement” (SAS 100.1 [APB, 1995c]).

Here, the analogy between the auditor and the historian needs to be moderated. One of the qualities by which professional historians are judged is the care with which they address their primary sources. Historians who are content that their histories “are free of material misstatement” are likely to be criticized by their peers on the basis that carelessness with sources makes it difficult to lend credence to their conclusions.⁸ In contrast, the auditor will be prepared to overlook immaterial errors in financial statements and in underlying records. Financial statements may “give a true and fair view” even when they are known to contain errors. Justifying the audit opinion takes on broader dimensions as auditors are increasingly being sued for negligence [Napier, 1998]. Auditors must be able to show that the audit was properly carried out and that the opinion was properly based on evidence. Official auditing standards have become important in determining what constitutes a proper audit, but whether a given audit has been properly undertaken is ulti-

⁷ In the UK, the leading judicial authority for this is the case *re Kingston Cotton Mill Company (No. 2)* ([1896] 2 Ch. 279). See Napier [1998] for a review of this case and others that determined the bounds of the auditor’s duties and liabilities in the UK.

⁸ Evans [1997, pp. 116-122] gives extensive discussion to a case involving a book by David Abraham *The Collapse of the Weimar Republic* [Abraham, 1981], which was strongly criticized for misusing its sources. Abraham claimed that his archival abuses did not affect his overall conclusions, but Evans [1997, p. 121] expresses the view that “while Abraham did not deliberately falsify evidence, he was extremely careless with it, far more so than is permissible in a work of serious historical scholarship, or indeed in any work of history”.

mately a matter for the courts to decide in the light of expert evidence of acceptable auditing practice. If the auditor is held to have conducted the audit negligently, then substantial legal damages may be payable.

Carelessness or negligence in undertaking historical research will rarely result in litigation.⁹ If historians cross the threshold of using their sources in accordance with current professional practice, then they will be judged by the quality of their arguments. Poor arguments, or poor use of sources, when judged by the standards of peers, expose the historian to criticism and may be detrimental to a successful career. An adequate evidence-gathering process and well-argued conclusions and interpretations will insulate the historian from criticism. Similarly, auditors who can demonstrate that the conduct of the audit, in the form of evidence-gathering, meets the contemporary standards of adequacy will be judged in terms of how well their conclusions are supported by the evidence they have collected. If the arguments are sound and the judgments tenable, then auditors and historians alike will be able to resist criticism that the outcome of their work (the audit report or the history) is unjustified. This is so even if subsequent work, perhaps using different evidence and developing different arguments, undermines the conclusions reached.

Despite some differences, the parallels between the auditor and the historian are strong, and this suggests that arguments about the foundations of historical research may be transferable to the context of auditing. In the next section of this essay, I shall consider two types of argument about historical research. These are the relationship of historical evidence to the underlying occurrences and events, given that the historian in general does not have direct access to the latter; and the nature of historical argument and interpretation. The arguments will be explored by reference to the work of two leading contemporary writers on the philosophy of history: Keith Jenkins and C. Behan McCullagh.

HISTORICAL FACTS, JUDGEMENT AND EVIDENCE

Keith Jenkins is best known for his book *Re-thinking History* [Jenkins, 1991], a brief and clear exposition of important philosophical and methodological issues in historical research and

⁹ The David Irving case referred to in note 3 is one of the rare examples where history is litigated.

the post-modern response to these issues. He has also written *On "What is History?": From Carr and Elton to Rorty and White* [Jenkins, 1995], a more extensive study that juxtaposes E. H. Carr and Geoffrey Elton, as representatives of a more "modern" and traditionalist conception of history, with Richard Rorty and Hayden White (neither of whom is, strictly speaking, a historian) as representatives of the post-modern challenge. His recent book *Why History? Ethics and Postmodernity* [Jenkins, 1999] is a conscious polemic aimed at showing "that postmodern ways of thinking probably signal the end of history" [p. 1], not in the sense of writers such as Fukuyama [1992] that the major conflicts that defined the historical development of the world are now over, but rather in the sense that history, as an attempt to discover the unarguable truth about the past, is now conceptually impossible. Jenkins has also edited *The Postmodern History Reader* [Jenkins, 1997].

Much of Jenkins's more recent writing is presented as a critique of the work of others, and his early book [Jenkins, 1991] is more accessible than some of his later work. This book contains some fairly uncontentious claims as well as others more open to debate. Jenkins emphasizes that there is a difference between "the past" ("all that has gone on before everywhere" [Jenkins, 1991, p. 6]) and "history" ("that which has been written/recorded about the past" [Jenkins, 1991, p. 6]), and that history in the latter sense is a discourse (or series of discourses). History exists as writing, and its sources are basically documentary, so there is a fundamental *ontological* distinction between "the past" and "history". Moreover, "the past and history are not stitched into each other such that one and only one reading of any phenomenon is entailed" [Jenkins, 1991, p. 8]. However, traditional historians wish to "stitch together" the past and history, so it is necessary to investigate what are the limits to the claims made by historians as to whether, and if so how, they know that they have achieved an adequate "stitching together". Jenkins argues that it is necessary to consider issues of epistemology, methodology and ideology in conducting such an investigation.

Epistemologically, Jenkins notes the difficulty of actually knowing the past when we are not presently experiencing it and all our evidence comes in the form of texts (understood widely). Jenkins goes so far as to suggest that unmediated knowledge of the past is impossible, and appears to assume that only direct experience can give unchallengeable knowledge, an extreme form of empiricism. Jenkins claims that historical knowledge "is

therefore likely to be tentative, and constructed by historians working under all kinds of presuppositions and pressures which did not, of course, operate on people in the past" [Jenkins, 1991, p. 10]. Jenkins concedes that what historians can say is constrained by "the sources", but he asserts that "the same events/sources do not entail that one and only one reading has to follow" [Jenkins, 1991, p. 13]. Interestingly, Jenkins argues that, if there *were* only one reading of the past, then, once this had been discovered, history as a practice would indeed come to an end, as he would see no point in simply repeating over and over again this one reading. One important factor that prevents this is that "through hindsight, we in a way know more about the past than the people who lived in it" [Jenkins, 1991, p. 13]. We can apply insights from the present to reinterpret the past, discovering what was forgotten and putting things together in different ways.

Overall, Jenkins rejects a simple correspondence theory of historical truth, but he must in addition address the other epistemological question of what, if anything, *justifies* the historian in making certain statements. He notes how a wide range of writers on history – he quotes Geoffrey Elton, E. P. Thompson and Arthur Marwick as representing the diversity of positions – argue that historical knowledge is possible, and ground the possibility of such knowledge in rigorous application of "historical method". Yet Jenkins demonstrates that there is no unique method on which all historians agree, not even a core of shared methodological concepts. Finally, Jenkins argues that the key question is not "What is history?", but rather "Who is history for?". History means different things for different people, and is mobilized for ideological purposes. Even an appearance of neutrality and objectivity may mask an ideological position – Jenkins insists that the conclusion to Richard Evans's *In Defence of History*¹⁰ represents a bourgeois approach to history by taking as self-evident what Jenkins considers as bourgeois (and therefore contingent) virtues [Jenkins, 1999, p. 100].

Jenkins does not deny that there are "facts about the past" that we can definitely know (for example, dates of well-attested events), but considers that "such facts, though important, are

¹⁰ "I will look humbly at the past and say despite them all: it really happened, and we really can, if we are very scrupulous and careful and self-critical, find out how it happened and reach some tenable though always less than final conclusions about what it all meant" [Evans, 1997, p. 253].

'true' but trite within the larger issues historians consider" [Jenkins, 1991, p. 32]. The larger issues are "not only what happened but how and why and what these things meant and mean" [Jenkins, 1991, p. 33]. It is this unavoidably interpretive aspect to historical writing that Jenkins considers central, but interpretation is utterly discursive. It is not the "brute facts" but how they are arrayed and located within historians' narratives that matter. Moreover, even the documentary sources that historians, in Jenkins's view, "fetishise" do not have significance *as evidence* until they are mobilized as evidence *for* or *against* particular interpretations.

Much of this, expressed in less polemic language, is accepted by many of the historians that Jenkins seeks to criticize. Evans [1997], for example, is happy to concede some of these points (earning further criticism from Jenkins [1999, pp. 104-105] as effectively trying to have things both ways, while merely exposing the inadequacies of the "traditional" view of history still further). It is Jenkins's more radical conclusions that pose stumbling blocks for historiographers such as Evans. At the core of these conclusions is the claim that "we don't need a history in order to 'place ourselves' in present times, or for thinking about our future or . . . for articulating identities and programmes for a reflexive, emancipatory politics 'without foundations'" [Jenkins, 1999, p. 202]. Jenkins goes beyond the view he attributes to some post-modernists "that after the end of modernity (and modernity-styled histories) we might well expect to see as a constituent of postmodernity, postmodern histories" [Jenkins, 1999, p. 10], to suggest that "to move into the future in radical, emancipatory ways, postmodern imaginaries *sans histoire* are all we need" [Jenkins, 1999, p. 10].

So the conclusion reached by Jenkins is a literal end of history, not in the sense that the one and only true history has been written (so historians have achieved their goal and can close down their operations), but that a post-modern age is an age with no need for history. This does not exclude the possibility of "imaginaries of the past", but these make no claim to be valuable because of their truth. Does this leave us with simply the interplay of a myriad of interpretations, in which anything goes? Although Jenkins has stated that some (indeed most) potential interpretations would be ruled out as inconsistent with "brute facts" or involving failures of reasoning, this can only be so for histories that, despite their post-modern pretensions, share many of the epistemological, methodological and ideological positions of "modernist" history. An "imaginary" may not

excite or move us, but it can scarcely be ruled out on the ground that it is not true – truth simply does not enter the equation. Thus Jenkins is quite correct to argue that a genuine post-modern history is impossible, so a post-modern world would be a world beyond history, because history cannot avoid making truth-claims, no matter how epistemologically problematic these are. History involves making assertions that certain things did, and other things did not, happen in the past, that they happened in certain ways and not in others, and that they can be better understood using particular interpretations rather than alternatives. This is essentially the argument that Arthur [2001, p. 265] puts forward for auditing: “doing auditing properly means being prepared to ultimately justify one’s methods, and . . . although the details of this justification may be negotiated, there is an ultimately non-negotiable discursive framework within which this can be done.” If the arguments proposed by Jenkins lead to the conclusion that history (post-modern and *a fortiori* modernist) is impossible, then it is likely that auditing will be impossible as well.

But are we obliged to accept the views of Jenkins? One philosopher of history who believes we need not is C. Behan McCullagh. His most recent book, *The Truth of History* [1998] refers briefly to Jenkins, but is aimed more at defending the view that “historical descriptions can be true of the past” and that “historical interpretations . . . are not entirely subjective” [McCullagh, 1998, pp. 1-2]. McCullagh’s significant contribution, which makes his work particularly appealing in the context of a study of auditing and financial reporting, is that he considers that the issue is not just whether historical descriptions and interpretations are “true” but whether they are “fair” as well. He argues that historical statements are constrained by evidence, and notes that there is no disagreement in practice about many historical statements for which the evidence is “large and unambiguous” [McCullagh, 1998, p 22]. His conception of the practice of historians is that:

The conclusion which historians generally adopt is that if an historical statement is well supported by abundant evidence, and much better supported than any alternative account, then the statement can be rationally accepted as very probably true. It is always logically possible that the evidence is misleading, or that their beliefs about it and the other beliefs on which they base their inference are mistaken. Indeed sometimes there is reason to think that this is not just a logical, but a real

possibility. At any rate, even when it is entirely rational to believe an historical description is very probably true, historians must admit that it could possibly be false. Historical knowledge, like all our knowledge of the world, is fallible [McCullagh, 1998, p. 23].

It is only if we want guarantees that our statements and arguments can never be refuted, not just practically but logically, that we will claim that accepting any fallible historical statement is irrational, and that without certainty there can be no truth and hence no history. McCullagh would regard this position of extreme skepticism as untenable. He recognizes that our perceptions, our modes of argument and inference and our methods of checking our conclusions are culturally shaped, but he does not see this as fatal to the possibility that historical statements may be true. He concedes that history is in this sense subjective, but rejects the view that this implies that there is no truth (or falsity) in history, and no way of assessing different historical interpretations. Finally, historical statements are expressed in language and are thus constrained by language, but the different conceptual frameworks imposed by different languages do not prevent historical statements from being true or false merely because they might have been expressed differently.

As regards historians' claims that they aim at the discovery of the truth, McCullagh concludes that, without such a concern, history would largely be pointless:

Why search for evidence of an historical period if it cannot reveal the truth? Why weigh alternative implications carefully and rationally? Why distinguish plausible conjectures from well-supported facts? What is the significance of the carefully "constructed" accounts of the past which historians produce, if they cannot be regarded as largely true descriptions of what happened? [McCullagh, 1998, p. 57].

In a sense, McCullagh reaches a similar conclusion to Jenkins, although while Jenkins sees such a conclusion as cause for celebration, McCullagh views it more as a *reductio ad absurdum* of the view that historical practices cannot lead to the generation of knowledge. McCullagh qualifies the view that the goal of historical research is to make true statements. He notes that "descriptions are meant to be, not just literally true, but also fair representations of their subject" [McCullagh, 1998, p. 57]. McCullagh has written more extensively about the issue of fairness in historical narratives in a self-contained essay

[McCullagh, 1987], and in *The Truth of History* he provides only a brief account. Essentially, historical statements are “fair” if they are not “misleading”, and one instance of this is where statements “ignore major features of the property being described, and thus give a misleading impression of the whole” [McCullagh, 1998, p. 58]. An implicit aspect of fairness is avoidance of bias, particularly through omission of important facts: “A fair representation is a balanced one, and historians are frequently at pains to correct the imbalance of previous histories” [McCullagh, 1998, p. 58]. A fair description is also a complete one, and McCullagh explains how this can be achieved without having to mention absolutely everything about a historical subject, through ensuring that descriptions maintain a consistent level of generality and detail, rather than placing the general and the particular on the same level.

A critic of McCullagh might argue that the concept of historical truth he advances is not immune from skepticism and relies heavily on the assertion that “It is not irrational to believe certain things true of a subject just because there is a slight chance that those beliefs are false” [McCullagh, 1998, p. 61]. Such a critic might argue further that the concept of historical fairness is only sketched out, but even so appears to appeal to notions such as balance, completeness, and absence of any tendency to mislead, that themselves are highly subjective and may even be considered (*à la* Jenkins) to exemplify bourgeois ideology. Despite this, McCullagh’s appeal to both “truth” and “fairness” has obvious resonances to the auditor, and it is to this that I now turn in the concluding section.

HISTORICAL EVIDENCE AND AUDIT EVIDENCE

If we accept the position of Keith Jenkins, then, except at the trite level, there is no unique historical truth. If a search for such a unique truth is constitutive of history, then history is impossible and, in a post-modern world, we need to move to “imaginaries”. Jenkins bases this argument in part on a claim that history is inevitably ideological, but mainly on the epistemological disjuncture between history and its subject matter – the past – which is simply inaccessible to us in the present, the infinite scope for interpretation of the texts that represent the historian’s sources, and the lack of consensus as to the methodological practices of the historian that are supposed to grant security to the historian’s interpretations and conclusions.

These arguments seem equally to apply to auditing. There is

again the disjuncture between the underlying transactions and events that are allegedly being represented in financial statements and the traces that these transactions and events may or may not be leaving. Whether or not the traces count as persuasive audit evidence depends on practice, but there is a lack of consensus over what best audit practice is, and audit practice is not static but has changed dramatically over time. Any particular set of audit practices is historically contingent rather than necessary, and claims that practices are improving will be problematic. There are many different accounts that can be based on a given set of traces and accounting records, just as there are many different “accounts” that the historian can give. Although some of these accounts can be ruled out as incoherent given agreement on the underlying traces, there is no one true account. Thus far, the analogy between historical research and auditing seems strong, but if we accept Jenkins’s conclusion that, in a modernist world, history lacks foundations and, in a post-modern world, there can be no history, then the analogy seems to imply that auditing lacks foundations and, in a post-modern world, there can be no auditing.

McCullagh’s position is more favorable to auditing. He concedes that historians can “get it wrong”, but he argues that the practices of historians are likely, if properly carried out, to “maximise the chance of arriving at the truth” [McCullagh, 1998, p. 57]. The view that truth-seeking is constitutive of history, a stumbling-block to Jenkins, is an article of faith to McCullagh. But truth needs to be tempered by fairness: mere correctness is not enough. And judgments of fairness cannot so easily be reduced to matters of practice and method. Drawing out the analogy between history and auditing, the practices of auditors, which are constantly developing, are likely, if properly carried out, to maximize the chance of reaching a valid audit opinion. It makes sense to argue, in the context of financial reporting, that not only can the choice of accounting methods lead to different numbers, but that such a choice can be deliberately made with a view of misleading. Hence the motives of the preparers of financial statements need to be critiqued, not just the statements themselves. “Arguments to the best explanation” [McCullagh, 1984, pp. 15-44] may be valid within history, but where no single viewpoint emerges as the “best explanation”, then it would be unethical for the historian to present a single position as the *only* position. Similarly, in financial reporting, if there is no single true accounting (though there may be many false accountings), then it would be unethical for the auditor to

claim that a particular accounting represents “the truth”. It is often forgotten that the British audit report (and those of countries following this wording) states that financial statements give *a* true and fair view, not *the* true and fair view.

Auditing, then, faces similar epistemological and methodological difficulties to history. If history is logically impossible, then so must auditing be. If we can decide when historical statements are justified (even though we concede that there is always the remote chance that they are not true), then similar decisions may be made about auditing judgments. Perhaps, as Arthur [2001, p. 262] points out, it may be the case that “statutory auditing, as it is currently conceived and required, is impossible”, but this does not make *all* auditing impossible. The challenge to fundamental theorists of auditing will be to learn from theorists of history as to which discursive arguments are likely to vindicate *some* form of auditing. In practice, just as historians rely on a core supposition that most traces of the past were not prepared to mislead but genuinely correlate with occurrences and events, however open to interpretation they may be, so auditors rely on a core supposition that accounting records are not prepared to mislead but genuinely correlate with underlying transactions and events. Sometimes historians are deceived. So are auditors, but only the extreme skeptic would argue that this makes both history and auditing logical impossibilities.

Of course, it is open to both historians and auditors to adopt methods that are likely to reduce the risk of falling victim to deception (or indeed self-deception). What makes historical accounting research possible is the same core belief as that of the auditor, that, while accounting records must be approached with awareness that they may have been subject to deliberate manipulation or unintentional errors of omission or commission, they can usually be relied on as evidence of the underlying occurrences to which we no longer (if we ever could) have direct immediate access. An *a priori* belief that financial statements, accounting records and accounting documents can never be relied on in this way on would make the practice of auditing incoherent. The historical accounting researcher could still comment on the documents and texts that are available for analysis, but only as texts, not as telling us anything about any real occurrences or events. Such a “history of accounts” would focus on the physical artifacts that are considered to be accounting records, emphasizing accounts as texts. It would not be correct to deny altogether the textual nature of accounting, and writers such as Cooper and Puxty [1996, p. 306, following Derrida and

Baudrillard] have helpfully pointed out the danger posed by historians' "jostling for space, claiming the status of true descriptors of 'what happened'". Yet I would suggest that a purely textual history of accounting would be much less productive than one that takes the texts not as things in themselves but rather as evidence for activities, occurrences, happenings and events. Historians of accounting continue to express views on how they, and other historians, use sources as evidence. Sometimes, these views are unreflective and "common-sensical". Awareness of general debates over how historians use evidence will help to strengthen not only historical accounting research but also, through our interaction with our auditing colleagues, auditing practice.

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NEW MAILING ADDRESS

The Accounting Historians Journal has moved.

Correspondence should now be sent to:

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The Accounting Historians Journal

CALL FOR PAPERS

In 1904 the First International Congress on Accounting was held in St. Louis. This event inaugurated a series of congresses which have become landmarks in the internationalization of accounting. To commemorate the centenary of the St. Louis Congress, the Academy of Accounting Historians will convene the 10th World Congress of Accounting Historians in St. Louis, MO and Oxford, MS in 2004. A special section of *The Accounting Historians Journal* has also been commissioned on:

International Congresses of Accounting

Although the congresses have assumed much significance among scholars of international accounting and offer much scope for comparative historical investigation, they have received limited attention from accounting historians. This is despite the availability of published proceedings for several congresses. Papers are invited on themes relating to individual or several congresses. Submissions might address topics such as congresses and:

- Professionalization in national and international contexts.
- Expressions of internationalism and nationalism.
- Continuity and change in professional practice.
- Profession-state relationships and politicization.
- Harmonization, standardization and uniformity in accounting.
- Diversity in accounting thought and practice.
- Tracking shifting agendas in the accounting academy.
- Development of theory in accounting and auditing.
- Accounting innovation.
- Accounting in shifting economic, social and political contexts.
- Cultural studies of accounting and accountants.
- Biographical studies of leading actors.
- Relations between the profession and academe, approaches to accounting education.
- Interfaces of accounting and other disciplines.
- Accounting and new technology.

Authors interested in contributing to the special section should discuss their plans with the guest editor, Richard Vangermeersch, College of Business, University of Rhode Island, 210 Flagg Road, Kingston, RI 02881, USA (rvang@uriacc.uri.edu), or with the editor of *The Accounting Historians Journal*, Stephen Walker, Cardiff Business School, Colum Drive, Cardiff, Wales, UK, CF10 3EU.

Submissions should be sent to the editor or guest editor by March 2004 and will be reviewed in the usual way.

Accounting, Business & Financial History

Call for Papers

Special Issue:

German Accounting History

In recent years, Accounting, Business & Financial History has published a series of special issues on accounting history in specific countries. This call extends this theme to Germany. In spite of rich sources of archival data and a fascinating and complex history, relatively few papers on German accounting history have appeared in the English language academic literature. This special issue represents one step towards remedying this state of affairs. Submissions are invited on the following subjects:

- Professionalisation, particularly critical re-examinations of the history of the audit profession
- Histories of accounting education
- Gender studies of accounting and business
- Accounting, auditing and the state
- The impact of National Socialism and other regimes
- The interfaces between accounting, taxation, law and economics
- Corporate governance issues in historical perspective
- The development of company law
- Biographical studies
- Histories of cost and management accounting
- Accounting in the public sector
- Histories of accounting in other social and organisational settings

The above list is not exhaustive and papers are invited on other subjects including comparative studies between Germany and other countries. The call is directed at authors of any nationality.

Papers must be submitted in English, although editorial assistance with the English language will be available for the papers selected. Instructions for contributors can be found in any recent issue of ABFH or at <http://www.tandf.co.uk/journals/authors/r-authors/abfauth.html>.

Papers submitted will be subject to the normal refereeing process and should be sent by 31 December 2003 to

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10TH WORLD CONGRESS OF ACCOUNTING HISTORIANS

ST. LOUIS/OXFORD, AUGUST 1-5, 2004

CALL FOR PAPERS

ONE — TWO — THREE

ONE CONFERENCE — TWO LOCATIONS — THREE THEMES

The 10th World Congress of Accounting Historians will meet in the USA with a dual venue of St. Louis, MO, and Oxford, MS, from August 1-5, 2004. The Congress will commence in St. Louis on August 1 to celebrate the centenary of the first International Congress of Accountants that was held in St. Louis in 1904 as a part of the World's Fair commemorating the Louisiana Purchase and Lewis & Clark Expedition. Sessions will be held at the St. Louis Mercantile Library, which was founded in 1846. The headquarters hotel will be the Renaissance Airport Hotel. The Congress will then move by air-conditioned motor coaches to Oxford, MS, on August 3 to give delegates an opportunity to visit the National Library of the Accounting Profession at the University of Mississippi. The Ole Miss Library is the largest accountancy library in the world. The Alumni House Hotel will be the Congress headquarters. There will be activities during the motor coach trip devoted to accounting history topics, such as featured speakers and videotapes. After the Congress, delegates may proceed to Orlando, FL, for the American Accounting Association meetings. It may be most convenient to continue your post-Congress air travel from nearby Memphis International Airport.

Papers are invited on **any** accounting history topic. Papers that address any of the three Congress themes are particularly desired. The three Congress themes are:

1. International Congresses of Accountants
2. Accounting for Transportation and Financial Industries
3. Archival-Based Accounting Research

INTERNATIONAL CONGRESSES OF ACCOUNTANTS:

Since 2004 marks the centenary of the first International Congress of Accountants in St. Louis, a major theme of the 10th World Congress of Accounting Historians is scholarship on the sixteen International Congresses of Accountants, the nine International Congresses of Accounting Educators, and the nine preceding World Congresses of Accounting Historians. There is a need to increase the relatively limited scholarship about each of these congresses. The dates and sites of these previous congresses are:

International Congresses of Accountants				World Congresses of Accounting Historians	
1904	St. Louis	1972	Sydney	1970	Brussels
1926	Amsterdam	1977	Munich	1976	Atlanta
1929	New York	1982	Mexico City	1980	London
1933	London	1987	Tokyo	1984	Pisa
1938	Berlin	1992	Washington	1988	Sydney
1952	London	1997	Paris	1992	Kyoto
1957	Amsterdam	2002	Hong Kong	1996	Kingston
1962	New York			2000	Madrid
1967	Paris			2002	Melbourne



The International Congresses of Accounting Educators started in 1962 and were conducted just before or after the International Congresses of Accountants, either in the same city or nearby. Leadership of the **IAAER** [International Association for Accounting Education and Research] will assist in reviewing papers for this theme. Some examples of possible paper topics include (1) Examination of a Specific Congress; (2) Continuity and Discontinuity of the Congresses; (3) Concept of International Congresses; (4) Key Players at Each Congress (Biographies); (5) Seminal Papers; (6) Splitting the Congresses in 1962; (7) Continuing Themes and Topics Across the Years; and (8) International Accounting Standards Movement.

ACCOUNTING FOR TRANSPORTATION AND FINANCIAL INDUSTRIES:

As the Gateway to the West, St. Louis is an appropriate venue for research on accounting for railroads, canals, riverboats, stagecoaches, airlines, and automobiles. The Mercantile Library is also a repository of several transportation collections. Thus, the Congress will highlight papers dealing with transportation-related industries throughout the world. Papers can include analyses of financial statements, accounting innovations, and the people who played a role in the development of transportation accounting. Similarly, St. Louis has historically been a financial center for Western development, so histories related to accounting for all types of financial institutions will be a focus of the Congress.

ARCHIVAL-BASED ACCOUNTING RESEARCH:

Because the library at the University of Mississippi is a treasure trove of accounting archival records, one of the Congress themes will be to emphasize archival-based research. Such research can be based on any type of organization. Examples include analyses of accounting innovations, diffusion of accounting innovations, impact of the environment (such as war, depression, or competition) on accounting, impact of accounting on the environment, and examples of company histories based on accounting records.

In addition to papers on the three Congress themes, papers on other topics of accounting history are also welcome.

The 10th World Congress is sponsored by the **Academy of Accounting Historians**. The co-conveners of the Congress are Richard Vangermeersch of the University of Rhode Island, and Dale L. Flesher of the University of Mississippi. Manuscripts for review should be sent to the following address:

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Papers may be submitted in either hard copy or electronic format (electronic submissions should be in either WORD or WordPerfect format). All papers should be submitted in English. Special consideration will be accorded those papers prepared by scholars who use English as a second language so as to facilitate the broadest acceptance and presentation of materials. The Congress program will focus around the best papers received. All papers will be double-blind refereed and, subject to consent, the accepted papers will be published as refereed Congress Proceedings on the Congress website. A hard-copy volume of abstracts will also be distributed. The deadline for submissions is **February 28, 2004**. Earlier submissions are encouraged.

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The 7th Interdisciplinary Perspectives on Accounting Conference 13-16 July 2003

CALL FOR PAPERS

The IPA conference is an established forum for research into the social, political and organizational aspects of accounting theory and practice. The IPA is more than just a conference, it is an international community of scholars who gather together to contrast and compare different views on what accounting research is, has been or should be. The tradition of the IPA is therefore one of openness towards what is different from the conventional viewpoint of many accounting studies.

In keeping with its tradition of openness, the organizers of **IPA 2003** aim to broaden the scope of the IPA by fostering the engagement of those who are not IPA related. Therefore the 2003 conference will not only host interdisciplinary studies performed by accounting scholars but will also welcome papers from researchers in other disciplines (e.g. sociology, anthropology, philosophy, communication and information theory, etc.) who are interested in accounting as a practice. Major themes will include (but are by no means limited to): accounting, finance and management controls; markets, institutions and social order; accountability and identity; the changing organisation of the accounting profession; globalization, regulation, and technology; public policy; accounting methodology; knowledge and education; accounting in emerging economies; race & multicultural issues;

ecology & green accounting issues; gender relations & feminist theories; ethnographical studies; narrative approaches to accounting.

Three hard copies of completed papers and a copy on file should be sent to:

IPA 2003 Conference
Departamento de Economía de la Empresa
Universidad Carlos III de Madrid
Calle Madrid 126
28903 Getafe (Madrid) Spain

**Deadline for submission:
15 January 2003.**

For the first time in its 18-year history, the IPA will be held outside of Manchester. The IPA's shift of venue from Manchester to Madrid is more than a simple geographical move but a furtherance of our ongoing aim at moving towards 'The Other'. Through this move the organizers also hope to widen the scope of the IPA by attracting scholars outside the traditional Anglo-American critical accounting community.

The IPA 2003 will retain the most distinctive features of past IPAs including: a thorough review of papers received and the presentation of papers by discussants with responses from the author. After the very successful experience of IPA 2000, the Conference will also host a **Young Scholars Colloquium** immediately before the Conference (11-13 July 2003).

If you would like to register for the conference, submit a paper, attend the doctoral colloquium, be a reviewer and/or discussant, details of what to do next can be found at our website:

<http://www.emp.uc3m.es/ipa.htm>

All Enquiries to: ipa2003@emp.uc3m.es

CONFERENCE ORGANIZERS:

Universidad Carlos III de Madrid, Departamento de Economía de la Empresa
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Guest Editor: A. Richardson, Queen's University, Canada

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